VOL 8 No 5 MAY 1978

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Published for British Information Services by
Her Majesty's Stationery Office, London
Annual subscription including postage and index £10·74

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GOVERNMENT AND ADMINISTRATION

Parliament: State of the Parties

The Labour and Conservative parties have each retained two seats in recent by-elections, and now have respectively 307 and 282 members in the House of Commons.

The Labour Party retained its seats at Glasgow, Garscadden on 13 April and at Lambeth Central on 20 April. The successful candidates were respectively Mr Donald Dewar, who won by a majority of 4,552 votes, and Mr John Tilley, who won by 3,141. On 27 April the Conservative Party retained its seats at Wycombe and at Epsom and Ewell, the successful candidates being Mr Ray Whitney, whose majority was 15,568, and Mr Archibald Hamilton, who won by 20,928 votes. The Epsom and Ewell by-election was caused by the conferral of a life peerage on the former Conservative MP, Sir Peter Rawlinson, in March. The other three by-elections had been caused by the deaths of the MPs (see p 83).

The results were as follows:

Glasgow, Garscadden

D. Dewar (Labour)	16,507
K. Bovey (Scottish National)	11,955
I. Lawson (Conservative)	6,746
S. Farrell (Scottish Labour)	583

Two other candidates each received less than 500 votes. Some 69 per cent of the electorate voted.

Lambeth Central

J. Tilley (Labour)	10,311
J. Hanley (Conservative)	7,170
H. Steven (National Front)	1,291
D. Blunt (Liberal)	1,104

Seven other candidates each received less than 500 votes. Some 44·5 per cent of the electorate voted.

Wycombe

R. Whitney (Conservative)	29,677
T. Fowler (Labour)	14,109
H. Warschauer (Liberal)	3,665
S. Jones (National Front)	2,040

Some 59 per cent of the electorate voted.

Epsom and Ewell

A. Hamilton (Conservative)	28,242
A. Mooney (Labour)	7,314
M. Anderson (Liberal)	5,673
J. King (Royalist)	2,350
J. Sawyer (National Front)	823

Some 54·8 per cent of the electorate voted.

The state of the parties in the House of Commons is now, therefore, as follows:

Labour	307
Conservative	282
Liberal	13
Scottish National	11
Official Unionist (Northern Ireland)	7
Plaid Cymru (Welsh Nationalist)	3
Independent Unionists (Northern Ireland)	2
Scottish Labour	2
Democratic Unionist (Northern Ireland)	1
Independent (Northern Ireland)	1
Social Democratic and Labour (Northern Ireland)	1
Vacancy	1
TOTAL	631

The vacancy arises from the death in March of the Labour MP for Hamilton, Mr Alexander Wilson.

In addition there are the Speaker of the House of Commons and his three deputies (the Chairman of Ways and Means and the first and second Deputy Chairmen of Ways and Means). They do not vote except in their official capacity in the event of a tie.

Recent Legislation

The public Acts of Parliament passed in the first four months of 1978 are listed below.

All the Acts were sponsored by the Government. The second reading references are to the appropriate House of Commons or House of Lords *Hansard*.

Civil Aviation Act 1978. Provides for the transfer of the burden of aviation security expenditure from the taxpayer to the industry; for more effective control of aircraft noise; for increases in the borrowing limits of the Civil Aviation Authority and British Airways; and for several minor changes to previous civil aviation legislation. Second reading (HC): 16.1.78, cols 64-172. Royal Assent: 23.3.78. Ch 8, ISBN 0 10 540878 6, HMSO, 45p.

Commonwealth Development Corporation Act 1978. Consolidates the legislation relating to the Commonwealth Development Corporation. Second reading (HC): 23.2.78, cols 1831-2. Royal Assent: 23.3.78. Ch 2, ISBN 0 10 540278 8, HMSO, 35p.

Consolidated Fund Act 1978. Authorises the Treasury to make a sum available to the public service. Second reading (HC): 20.3.78, cols

1077-288. Royal Assent: 23.3.78. Ch 7, ISBN 0 10 540778 X, HMSO, 10p.

Employment Subsidies Act 1978. Provides powers to continue some existing schemes to counteract unemployment, and to introduce new ones (see pp 135-6). Second reading (HC): 20.2.78, cols 1097-175. Royal Assent: 23.3.78. Ch 6, ISBN 0 10 540678 3, HMSO, 15p.

Local Government (Scotland) Act 1978. Makes minor amendments to certain provisions in Scottish local government legislation. Second reading (HL): 22.11.77, cols 780-91. Royal Assent: 23.3.78. Ch 4, ISBN 0 10 540478 0, HMSO, 25p.

Northern Ireland (Emergency Provisions) Act 1978. Consolidates most of the Northern Ireland (Emergency Provisions) Act 1973, as amended, together with the Northern Ireland (Young Persons) Act 1974 and several Statutory Instruments (see p 309, 1976). Second reading (HC): 23.2.78, col 1832. Royal Assent: 23.3.78. Ch 5, ISBN 0 10 540578 7, HMSO, 60p.

Participation Agreements Act 1978. Removes an element of doubt about the status of North Sea oil participation agreements under the restrictive trade practices legislation. Second reading (HC): 18.11.77, cols 980-1018. Royal Assent: 23.2.78. Ch 1, ISBN 0 10 540178 1, HMSO, 10p.

Refuse Disposal (Amenity) Act 1978. Consolidates certain legislation relating to abandoned vehicles and other refuse. Second reading (HC): 13.3.78, cols 163-4. Royal Assent: 23.3.78, Ch 3, ISBN 0 10 540378 4, HMSO, 35p.

EXTERNAL AFFAIRS AND DEFENCE

European Community

The European Council agreed that the Community should develop a common strategy designed to reverse the unsatisfactory trend with regard to employment and economic growth, and selected dates for the first direct elections to the European Assembly. A legal basis has been provided for a continuing programme of aid to non-associated developing countries, and an agreement has been signed in connection with the special action programme for low-income countries. The Community has granted to Cyprus concessions on agricultural exports. The Council of Ministers deferred further consideration of agricultural prices until 8 May. Britain expressed its views on proposals for Mediterranean agriculture. Details of these and other recent developments are given below.

EUROPEAN COUNCIL

The European Council met on 7 and 8 April in Copenhagen. The Prime Minister, Mr James Callaghan, reported on the meeting to the House of Commons on 10 April (*Hansard*, cols 983-97).

Economic Strategy

Mr Callaghan said that 'the main focus' of the Council's discussions had been 'the unemployment of both human and material resources within the Community'. The growth rate of the Community during 1977 had been 1·9 per cent and it had been agreed that they should develop a common strategy designed to reverse this unsatisfactory situation. 'The strategy', said the Prime Minister, 'should cover five broad areas–economic and monetary affairs, employment, energy, trade, and relations with the developing world' – similar to those he had recently suggested to President Carter as areas in which the industrial world needed to take collective action (see pp 123-4). It was the Council's view that agreement in these fields would be an important contribution to world economic recovery, higher economic growth and the creation of new jobs. The Council had laid stress on the need to prevent inflation as part of the same objective.

'It was decided', said Mr Callaghan, 'to aim for a Community growth rate of 4·5 per cent by the middle of 1979 and to define the margin of manoeuvre that would be open to member states as a result of co-ordinating their actions. The possibilities should be known when the Council next meets in Bremen in July.' It had been agreed to recommend a doubling of the capital of the Community's European Investment Bank.

Noting that an improvement in the general employment situation would be a key objective of such a common strategy, the Prime Minister said that the Council had agreed 'to examine whether work-sharing measures should have a supplementary part to play in alleviating the present grave employment problems'.

The Council had discussed the 'serious problems of structural over-capacity' in what are called 'industries in distress', and had agreed that tripartite committees – made up of representatives of Governments, employers and trade unions – should be set up on a European basis to overcome these problems and 'to restore the industries to world competitiveness'.

Work was being set in hand on these matters and 'on the imbalances of current account surpluses and deficits which lead to currency instability,[1] as well as on measures to reduce demand and increase supplies of energy in the Community'. It had also been recognised that there was a need to reach a successful conclusion on the present multilateral trade negotiations[2] and to increase capital flows to the developing countries.

It was intended that conclusions on these matters should be reported to the next European Council in Bremen early in July. This meeting would be followed by the seven-nation economic summit (see p 124, footnote 1). Pointing out that it would thus be possible to present a European dimension to the wider summit, Mr Callaghan stated: 'The discussions so far held with heads of Government within and outside the Community have now to be made effective by policy measures which – taken together – will offer the best chance of bringing about a change in the direction of the world economy and an improvement in world confidence.'

Terrorism

Referring to the recent abduction of the former Italian Prime Minister, Signor Aldo Moro, Mr Callaghan said that there had been agreement on the need

[1] In this connection, the Council agreed that consultations with Japan, with special reference to that country's balance of payments surpluses in the context of the world economy as a whole, should be pursued vigorously (see p 7).

[2] The current 'Tokyo Round' of multilateral trade negotiations, which is being conducted under the General Agreement on Tariffs and Trade (GATT).

for close co-operation among the Nine in countering terrorism and to reach conclusions on the proposals put forward by President Giscard d'Estaing with the aim of improving judicial co-operation among the member countries.

Middle East

The Prime Minister reported that the Council had deplored all recent acts of violence in the Middle East and the events in southern Lebanon, and 'expressed support for the new United Nations Force and for the integrity of the Lebanon' (see pp 120-2). The Council had emphasised that 'the momentum of the peace process in the Middle East should be maintained with a settlement based on Security Council resolution 242 in all its parts and on all fronts'.

Southern Africa

The Council had issued a statement supporting the efforts of the five Western members of the Security Council to bring about a peaceful solution in Namibia (see p 155). On Rhodesia, the Council had expressed its 'continuing support for a satisfactory solution based on the principles of the Anglo-American plan' (see p 338, 1977).

Direct Elections

The Council had agreed that the legislative procedures in the member states were sufficiently advanced to select the dates of 7-10 June 1979 for the first direct elections to the European Assembly (see p 40). Each member state would choose its customary day of the week. For Britain that would be Thursday 7 June 1979.

Declaration on Democracy

The Council had adopted a declaration on democracy 'reaffirming the link between membership of the Community and the observance of democratic principles, which is valid for both present and future member states'.

Pollution of the Sea

Following the *Amoco Cadiz* disaster (in which a large quantity of oil had escaped from a tanker which had gone aground on the French coast on 18 March), the Council had called on member states 'to adopt common attitudes in preventing pollution of the sea and in particular to co-ordinate action on compulsory shipping lanes and on effective control over vessels which do not meet the minimum standards for the operation of ships'.

European Foundation

The Council had agreed that a European Foundation should be established in Paris to promote cultural and other contacts within the Community.

DEVELOPING COUNTRIES

At its meeting on 25 April, the Council approved a regulation for the implementation of financial and technical aid to non-associated developing countries (that is, those developing countries not participating in the Lomé Convention (see pp 51-2, 1975) or in the similar arrangements set up in 1976 for the overseas countries and territories of the Community's original six member countries and for all British dependent territories with the exception of Bermuda, Gibraltar and Hong Kong).

Since joining the Community in 1973, Britain has been pressing for a substantial and growing flow of Community aid funds to these countries. Since 1976, the Community has made rising allocations of aid on an *ad hoc* basis; the current allocation is 70 million units of account, of which 75 per cent is for the poorest Asian and 25 per cent for the poorest Latin American countries. The new regulation provides a legal basis for a continuing programme of aid.

On 2 May, the Community signed an agreement with the International Development Association (part of the World Bank) for the administration of the Community's $385 million contribution to the special action programme agreed upon at the Conference on International Economic Co-operation (see pp 228-9, 1977). Britain's share in the contribution amounts to $115 million. The programme is designed to assist those low-income countries most affected by resource-transfer problems.

CYPRUS

Ministers for foreign affairs met in Council on 4 April. Reporting on the meeting to the House of Commons (*Hansard*, 7.4.78, written answers, cols 207-8), Mr Frank Judd, Minister of State at the Foreign and Commonwealth Office, said that agreement in principle had been reached on concessions for agricultural products which the Community would grant to Cyprus for the period 1 April-30 June, pending entry into force of the new agricultural agreement between the Community and Cyprus (see p 10).

The concessions include low-tariff exports of Cyprus potatoes to Britain up to an agreed ceiling. (Until the expiry of a former protocol in 1977, these entered Britain duty-free.) Welcoming the Council's decision, Mr Judd told journalists after the meeting that the Commission would seek a solution, in a new Community potato regime, to the special problems of Italy. (The agreement was previously delayed by Italy's request for special measures to foster its own potato exports as a condition for granting the concessionary tariff to Cyprus.)

AGRICULTURE

Prices and Related Matters

The Council of Ministers continued its consideration of agricultural prices for 1978–79 and related matters (see p 118) during its meetings on 4 and 5 April and 24-27 April. It adjourned until 8 May to allow time for study of the revised proposals which the Commission had submitted on 27 April. The marketing years for beef and milk have been extended until 21 May.

Mediterranean Region

At its meeting on 4 and 5 April, the Council continued its discussion of a package of measures proposed by the Commission to deal with the problems of agriculture in the Mediterranean region. In his House of Commons statement on the meeting (*Hansard*, 6.4.78, written answers, cols 181-2), the Minister of Agriculture, Fisheries and Food, Mr John Silkin, said: 'I welcomed the general emphasis on correcting underlying structural deficiencies

rather than applying more rigid import controls or internal support measures, and I emphasised in particular the importance of the measures concerned being cost-effective.'

Central Treaty Organisation

MINISTERIAL COUNCIL

The twenty-fifth session of the Council of Ministers of the Central Treaty Organisation (CENTO) was held in London on 19 and 20 April. It was attended by delegations from all the member states – Iran, Pakistan, Turkey and Britain – and the associate member, the United States. As representative of the host country, Dr David Owen, the Secretary of State for Foreign and Commonwealth Affairs, presided over the meeting, which reviewed the international situation with particular reference to developments in the CENTO region, and considered reports on the organisation's military and economic activities. As on previous occasions, the council meeting was preceded by a meeting of the CENTO Military Committee, held in Washington on 5 and 6 April. The committee examined military problems relating to the CENTO region and reviewed the extensive joint training exercises carried out by forces of the CENTO nations during the year. The annual meeting of the CENTO Economic Committee, to consider the projects and priorities assigned to the economic programme, took place in Tabriz, Iran, from 7 to 9 March. This article gives a summary of Dr Owen's opening address and of the communiqué issued at the end of the Council of Ministers' meeting.

Dr Owen's Speech

In his address to the opening session of the council, the Foreign and Commonwealth Secretary said that in the last year relations between Britain and the other member states had been solidified and strengthened by their membership of CENTO. The organisation brought its members together in military, economic and political fields, and played a very valuable role in achieving 'that interlocking between NATO, the European Community and other relationships'.

Dr Owen drew attention to the strains and pressures on the United Nations (UN), which he described as a major problem of the next year. Britain was contributing to a peace-keeping force in southern Lebanon (see p 122), and it was generally recognised that it was 'crucial for the stability of the world' to achieve peace in the Middle East. The spirit of goodwill generated by the visit of President Sadat to Jerusalem (see p 460, 1977) had, at times, begun to recede, and it was crucially important, said Dr Owen, that this spirit was rekindled and that Israel and the surrounding Arab states came together to achieve a negotiated settlement.

The United Nations had a role, not just in peace-keeping, but also in diplomatic initiatives, and Dr Owen cited the example of Cyprus (see pp 370-1, 1977) where, in addition to the UN peace-keeping force already there, he saw a role for the UN Secretary-General in the intercommunal talks and in bringing about a peaceful negotiation.

Dr Owen then turned to southern Africa, where Britain and the United States were attempting to bring about peaceful negotiated settlements with the five Western Security Council powers inNamibia, and bilaterally in Rhodesia (see pp 152-8). Both Namibia and Rhodesia, he said, might require UN peace-keeping forces, UN observation, UN monitoring and arrangements with the police force in order to provide that neutral framework 'in which people can operate, certain in the belief that the end result will have international acceptance and will win the legal and the other support of all the world'.

The United Nations would not be able to respond to these challenges unless everybody ensured that their commitment was positive, clear and definite. As fellow members of CENTO, Dr Owen believed that the participating nations would be able to contribute by co-ordinating their response and discussing these very important issues.

Dr Owen concluded by saying that he sometimes wondered whether any of these problems were soluble, but that 'if we do not seek peace there will be many people who will merely pursue their own objectives and continue armed conflict'.

Communiqué

In a communiqué issued at the end of the two-day meeting, the ministers reaffirmed the vital importance they attached to the preservation of the independence and territorial integrity of each of the member states in the CENTO region, and pledged continued support for the Central Treaty Organisation. They reviewed developments in the Middle East (see pp 120-2), and reaffirmed the importance they attached to the continuation of efforts aimed at achieving a comprehensive settlement which would result in a just, honourable and durable peace in the area, based on UN Security Council resolutions 242 and 338 (see pp 441-6, 1973). They agreed that the continuing failure to achieve peace in the Middle East constituted a grave threat to world peace.

Turning to southern Lebanon, the ministers affirmed the importance of the full and expeditious implementation of Security Council resolutions 425 and 426 (see p 122), including the prompt withdrawal of all Israeli forces from southern Lebanon, the early establishment of secure and peaceful conditions in that area, and the restoration of Lebanese governmental authority there.

The ministers noted that proposals with respect to Cyprus had been tramsmitted to the UN Secretary-General, and expressed the hope that intercommunal talks leading to a lasting and just solution to the Cyprus problem could be resumed in the near future through his good offices.

On the Horn of Africa (see pp 119-20), the ministers noted that the fighting in the Ogaden area had been reduced following the withdrawal of Somali forces, but they expressed concern that this dispute should have led to armed conflict, with

foreign intervention, on the scale that it had. They expressed the hope that the Eritrean conflict would be brought to a peaceful conclusion under the aegis of the Organisation of African Unity and that all external forces would be withdrawn from Ethiopia.

The ministers exchanged views on developments in Europe, and took note of the 'full and frank review of implementation' that had taken place in Belgrade as part of the review meeting of the Conference on Security and Co-operation in Europe (CSCE, see pp 115-17). They stressed that *détente* could not be selective and that security in the CENTO region was a 'closely connected element'.

In reviewing the report of the Economic Committee, the ministers noted with satisfaction the economic and social progress in the region, and expressed their appreciation of the economic projects undertaken by CENTO during the past year, particularly in the fields of agriculture, minerals development and public health. Noting the report of the Military Committee, they expressed satisfaction with the progress made in the improvement of co-operation among the armed forces of the alliance. They also noted the progress made in countering the threat of subversion in the region, and reaffirmed the determination of their Governments to continue taking the necessary measures to eliminate this threat.

During their review of events within the CENTO region, the ministers expressed appreciation at the positive and constructive initiatives taken by the regional members towards normalisation of relations and the reduction of tension and to enhance co-operation with other countries in the area. Finally, the ministers reaffirmed their determination to ensure that the alliance continued to contribute to the peace, security and stability of the region, so as to promote the prosperity and well-being of its member nations.

Southern Africa

Recent moves to find internationally acceptable settlements for the problems of Rhodesia and Namibia, with a view to both these countries attaining independence before the end of 1978, are summarised in this article.

RHODESIA

The Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, and the United States Secretary of State, Mr Cyrus Vance, visited Southern Africa from 14 to 17 April with the intention of seeking the agreement of all the parties involved in the Rhodesian problem to a round-table conference in May (see p 94). The leaders of the Patriotic Front agreed on 15 April that a further conference should be held as soon as possible, but a statement issued on 25 April by the 'transitional government' in Salisbury expressed disbelief that a further conference along the lines proposed would have any more prospect of success than the Geneva Conference (see pp 11-13, 1977). On 14 March the United Nations Security Council passed a resolution calling for the non-recognition of any 'internal settlement' to the problem of Rhodesia. In a statement to the Security Council on 15 March, Mr Ivor Richard, the British ambassador to the United Nations, said that Britain did not believe that the resolution, as drafted, would help to bring about a peaceful settlement.[1]

Dr Owen's Statement on 18 April

In a statement to the House of Commons on 18 April, Dr Owen informed the House that he and Mr Vance had held talks with the Patriotic Front on 14 and 15 April in Dar-es-Salaam, where they had also had talks with President Nyerere of Tanzania; with the South African Foreign Minister, Mr Botha, in Pretoria on 16 April; and with the signatories to the Salisbury agreement (see pp 92-4) on 17 April in Rhodesia's capital. The Foreign and Commonwealth Secretary told the House that 'the aim of all these meetings was to prepare the ground for round-table talks to bring about a negotiated ceasefire and an internationally acceptable settlement'. Continuing, Dr Owen said that 'there are still major differences between the parties . . . . However, there are some signs that we could widen the existing areas of agreement in two important ways, both of them crucial if we are to establish a neutral administration for the transitional period, capable of holding fair and free elections. Firstly', the Foreign Secretary explained, 'the Patriotic Front is now closer to accepting a role for the United Nations in supervising a previously negotiated ceasefire and in monitoring the activities of the military and police forces.' At the same time, he added, 'there is more understanding in Salisbury that United Nations' involvement gives an assurance that sanctions would be lifted prior to independence. Secondly', Dr Owen went on, 'all would probably now agree to a council with wide executive and legislative powers whose members would hold ministerial portfolios. The Patriotic Front [had] said that, provided their other demands (some of which are unacceptable to us) were met, they could accept a council presided over by a Resident Commissioner holding reserve executive powers over defence and law and order.

'There was widespread recognition in all of Southern Africa', Dr Owen concluded, 'that if we and the United States were to abandon the search for a negotiated settlement based on the principles of the Anglo-United States proposals [see pp 338-40, 1977] there would be no alternative to a bitter and bloody conflict, with an uncertain outcome and the

[1]On 4 May, after this article had gone to press, Dr Owen told the House of Commons (*Hansard*, cols 455-66) that he had decided to send Mr John Graham, the Deputy Under-Secretary in the Foreign Office concerned with African Affairs, to Africa to work with the US Ambassador to Zambia, Mr Stephen Low, and 'to stay there as long as is necessary to carry out the preparatory work for successful round-table talks'.

grave danger of it becoming internationalised and involving all the countries surrounding Rhodesia.'

Replying to questions about the best way forward, Dr Owen said that 'the problem is that both parties to the dispute believe that they have the recipe and the only way forward. Therefore, it is the job of the mediator [of Britain and the United States] to try to search for an alternative route which can bring about a major compromise affecting all sides. By trying to stick to principles we are better able to do that. There has been substantial progress', Dr Owen stated, and 'there are now considerable areas of agreement. Unfortunately, the main area of disagreement is the continued non-inclusion of all the nationalist leaders [in an agreement] and the inability to negotiate a ceasefire. It is to attempt to achieve a ceasefire that we must now bend all our efforts.'

Asked whether the British Government would recognise the internal settlement if it were supported by the electorate in free and fair elections, Dr Owen replied: 'Yes. If there are free and fair elections and this house is satisfied that the fifth principle, being acceptable to the people of Rhodesia as a whole, is met and that there has been a transfer of power, an independence constitution and a new government, I believe that this House would have to form that difficult judgment and remain true to the six principles which we have held through thick and thin.'

If Britain and the United States were to abandon their attempts at a negotiated settlement, Dr Owen continued, 'there is no one else who proffers the prospect of a negotiated settlement and ceasefire. There are many people with guns, people who are ready to provide more guns, who would seize the opportunity to have a conflict that could involve many African countries and much loss of life in Africa . . . . What we must try to do', he added, 'is to understand the motivation of the people on both sides who hold different views, and try to bring them together . . . . If we give a veto to any side in this difficult and tortuous dispute we shall never bring about peace. We must go on seeking to get a neutral administration which really can hold fair and free elections without armed conflict continuing.' At the same time, Dr Owen warned that to say it was impossible 'to have a fair test of opinion on acceptability of a settlement while there is continued armed conflict' would 'give a veto to people who wish to continue fighting. I do not believe', he went on, 'that most of the people in the Patriotic Front wish such a thing. They want a fair and honourable settlement . . . .' Responding to another question, Dr Owen said that he did not think that the Patriotic Front had 'been given an opportunity to come back to the country to fight fair and free elections with honour and dignity'. He believed, therefore, that 'the way to bring back the Patriotic Front is on the basis of a negotiated settlement, with participation in the negotiations'.

The Talks in Southern Africa

The visit to Southern Africa by Dr Owen and Mr Vance followed a period of intensive consultations during which Mr John Graham, Deputy Under-Secretary at the Foreign and Commonwealth Office, and Mr Stephen Low, the United States Ambassador to Zambia, held preliminary discussions with those involved. Their visit to Southern Africa in early April took place after talks between Dr Owen and Mr Vance on the weekend of 1-2 April; the meetings between the Nigerian head of State, General Obasanjo, and President Carter of the United States in Lagos on April 1-2; and the consultations among the foreign ministers or representatives of the Governments of Nigeria, Zambia, Botswana, Tanzania, the United States and Britain in Lagos on 1 April. A meeting of the presidents of the Front Line states – Angola, Botswana, Mozambique, Tanzania and Zambia – had also taken place on 25-26 March in Dar-es-Salaam.

Meeting with the Patriotic Front

The talks in Dar-es-Salaam on 14 and 15 April between Britain, the United States and the Patriotic Front – referred to as the 'Malta II Conference' (see p 92) – were held 'to discuss military and related matters arising from the Anglo-American proposals'. They were also attended by General Prem Chand, representing the Secretary-General of the United Nations (see p 414, 1977) and representatives of the Front Line states and Nigeria. An agreed statement issued on 15 April states that at the conference 'the United States and British Secretaries of State reaffirmed their support for the Anglo-American proposals. In the course of discussions, the leaders of the Patriotic Front put forward a number of proposals aimed at reaching a settlement within the principles of the Anglo-American proposals. For their part', the statement continued, 'the United States and British Secretaries of State took note of these proposals which they regarded as fundamental changes in the Anglo-American plan which would have to be negotiated. Progress was made and there was broad agreement in some important areas. It was agreed that a further conference be held as soon as possible.'

In Dar-es-Salaam on 16 April Dr Owen said that it was important that Britain and the United States should 'stick by their proposals . . . . But when people from varying sections, whether it is Mr Smith or Bishop Muzorewa or the Patriotic Front, start wanting to make changes in the Anglo-American proposals, they basically start to change the nature of it, which was a neutral administration.' Britain and the United States, he added, could not accept this.

At a press conference at Lusaka on 16 April Mr Joshua Nkomo, co-leader with Mr Robert Mugabe of the Patriotic Front, said that tangible progress had been made at the Dar-es-Salaam meeting. He said that the meeting had accepted the presence of a Resident Commissioner as proposed in the Anglo-American proposals and the establishment of a governing council. But, he added, in order to ensure the irreversibility of the decolonisation process, the Patriotic Front must play the major role in the governing council where it would have to have a 'slight majority'. Mr Mugabe told a press conference in Dar-es-Salaam on 20 April that the next step was the calling of a conference. This would discuss general matters pertaining to the independence period, that is, general constitutional arrangements, regarding independence.

Salisbury Government's Statement

In a statement issued in Salisbury on 25 April the 'transitional government' – the Executive Council – said that they appreciated the desire of the British and United States Governments to assist in achieving a peaceful transition to majority rule through the democratic process of free and fair elections. 'We do not believe, however', the statement continued, 'that a conference on the lines suggested would have any more prospect of success than the Geneva conference of 1976' (see pp 11-13, 1977). Such a conference appeared 'to be doomed to certain failure'. The Executive Council, therefore, urged the 'two Governments to re-examine their policies in the light of the radically changed circumstances in Rhodesia'. With the signing of the Salisbury agreement, it continued (see pp 92-4), and 'the subsequent replacement of the Rhodesian Front Government with the transitional government, an entirely new situation had been created. The objective of the nationalist parties, namely majority rule on the basis of universal suffrage, is enshrined in the Salisbury agreement.' Its 'constitutional provisions... are fully in accord not only with the six principles enunciated by successive British Governments, but also with the principles set out in the Anglo-American proposals' (see pp 338-40, 1977). The Salisbury agreement was in the process of being implemented and already significant progress was being made. This would be accelerated as the ceasefire arrangement gathered momentum. The members of the Executive Council, the statement went on, were united in their determination to proceed as rapidly as possible with the full implementation of the agreement. They were also united in their resolve not to reopen negotiations on matters which had already been decided as a result of three months of hard negotiation involving concessions by all parties to the agreement. 'As we have pointed out previously', the statement added, 'the Patriotic Front were not excluded from our negotiations, they excluded themselves. It was repeatedly made clear that they would be welcome to return and participate, provided they returned in peace.' This offer remained open provided they agreed to operate peacefully.

The Security Council Resolution

On 14 March the United Nations Security Council passed a resolution (No 423) calling for the non-recognition of any 'internal settlement' to the problem of Rhodesia (see pp 92-4). The vote was ten in favour to none against, with abstentions by Britain, the United States, Canada, France and the Federal Republic of Germany.

The resolution condemned 'all attempts and manoeuvres by the illegal regime aimed at the retention of power... and at preventing the achievement of independence by Zimbabwe'. It declared 'as illegal and unacceptable any internal settlement under the auspices of the illegal regime' and called 'upon all states not to accord any recognition to such a settlement'. The resolution further stated that 'the speedy termination of the illegal regime and the replacement of its military and police forces is the first prerequisite for the restoration of legality in Southern Rhodesia so that arrangements may be made for a peaceful and democratic transition to genuine majority rule and independence in 1978'. Such arrangements 'include the holding of free and and fair elections on the basis of universal adult suffrage under United Nations supervision'. Britain was called upon 'to take all measures necessary to bring to an end the illegal racist minority in Southern Rhodesia and to effect the genuine decolonisation of the territory...'. As the administering power Britain should, with the assistance of the Secretary-General of the United Nations, 'enter into immediate consultations with the parties concerned in order to obtain the objectives of genuine decolonisation of the territory...'.

In a speech on 15 April explaining Britain's vote, Mr Ivor Richard told the Security Council that Britain did not believe that 'it would help to bring about ... a peaceful settlement if the United Kingdom, with its special responsibilities as the administering authority, were to vote in favour of a text which could be open to misconstruction in a number of important respects'. Britain regretted that the 'sponsors of the draft resolution were not able to give fuller consideration to the alternative formulation' offered both by Britain and other members of the council during consultations.

Britain would 'neither accept nor condemn the outcome of the recent discussions in Salisbury', Mr Richard continued, but regarded 'that outcome as seriously defective and inadequate as a basis for a settlement. The outcome of the talks is not a settlement, nor is it even a full agreement, as there are still major outstanding issues, particularly re-relating to law and order, which have to be resolved. These are among the issues which are at the heart of the present conflict.' Since it was Britain's intention 'in co-operation with the Government of the United States, to bring all the parties together to resolve all the issues which stand in the way of the parties', it was right to 'maintain a position [which would] bring the parties together', Mr Richard said that 'a vote for this resolution could be seen as a condemnation of the outcome of the recent discussions in Salisbury, and a vote against this resolution could be seen as an endorsement of it'.

Britain considered that some of the formulations used in the resolution were obscure but wished to place on record its interpretation of the resolution. It regarded 'its primary purpose as being to indicate clearly that a settlement which leaves the position substantially as it is at the present, with an illegal regime retaining power on behalf of a minority community, is unacceptable to the international community and not one which will or can be recognised'. Britain would not hesitate 'in endorsing that for that has been our consistent position and it would be totally incompatible with our own proposals not to do so'.

Developments in Rhodesia

In accordance with the provisions of the Salisbury agreement (see pp 92-4) the Rhodesian Executive Council took office on 21 March 'to ensure that the duties imposed on the transitional government by the constitutional agreement were dealt with as expeditiously as possible'. The Executive Council comprises the four signatories of the Salisbury agreement: Mr Ian Smith, Prime Minister and leader of the Rhodesia Front; Bishop Abel Muzorewa,

leader of the United African National Council; the Reverend Ndabanangi Sithole of the African National Council (Sithole); and Chief Jeremiah Chirau of the Zimbabwe African People's Organisation. The four members of the Executive Council operate as equal partners although Mr Smith remains Prime Minister throughout the transitional period. The council's main task is to draft a new constitution, prepare for elections, arrange a ceasefire in the guerrilla war, release political detainees, review the sentences being served by political prisoners and remove discriminatory legislation. Chairmanship of the Executive Council will be held in rotation by the four leaders. Mr Smith was appointed first chairman and he will be succeeded in turn by Chief Chirau, Mr Sithole, and Bishop Muzorewa. Each of them will serve a period of four weeks as chairman. Decisions are reached by consensus, and any member of the Executive Council can veto a decision with which he does not agree.

Members of the Council of Ministers have also been appointed. This council comprises 18 members holding a total of nine portfolios, each one being jointly held by a black and a white minister. The three black nationalist organisations involved in the internal settlement appointed three ministers each, and Mr Smith appointed nine white ministers.

To date the Executive Council has ended executions for political or terrorist offences and it has begun to implement a phased release of political detainees. It has also appointed a constitutional committee to draft the new constitution based on the Salisbury agreement. Radio broadcasting in both Shona and Ndebele has also begun. On 2 May the Executive Council issued a statement lifting the ban on all proscribed political parties, including the Zimbabwe African National Union and the Zimbabwe African People's Union, and called for an end to the guerrilla war.

NAMIBIA

In a statement to the House of Assembly at Cape Town on 25 April the South African Prime Minister, Mr Vorster, said that his Government had accepted the proposal of the five Western members of the United Nations Security Council for an internationally acceptable transition to independence by Namibia in 1978. On the same day, the British Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, welcomed the South African Government's acceptance.Mr Vorster's announcement came as the climax to a year's negotiations between a Contact Group of senior officials of the five Governments with South Africa, the representatives of the South West Africa People's Organisation (SWAPO) and other African Governments; and followed the publication of the full details of the proposal in early April. On 28 April Mr Sam Nujoma who, as president of SWAPO, was in New York for the special session of the United Nations General Assembly on Namibia, which began on 24 April, called for the re-opening of negotiations on the Western plan. A statement issued after a political co-operation meeting of the European Council, on 7 April, supported the action of the five powers, saying that it considered the proposal a fair and reasonable settlement.

The Namibia Proposal

The proposal of the five Western members of the Security Council – Britain, Canada, the Federal Republic of Germany, France and the United States – was first presented to the South African Government and SWAPO in early February, shortly before their representatives attended ministerial level 'proximity talks' with the five Western members in New York on 11 and 12 February. The proposal envisages free elections for Namibia as one political entity, with United Nations supervision and control, for the purpose of electing a Namibian Constituent Assembly to draw up and adopt a constitution for an independent Namibia; and the appointment of a UN Special Representative, together with a UN Transition Assistance Group, to ensure the establishment of conditions that would allow elections as required by Security Council resolution 385 (1976) (see p 382, 1976). It also provided for the repeal of all discriminatory or restrictive laws; the release of all Namibian political prisoners or detainees held by the South African authorities; the return of all Namibians from outside the territory; the cessation of all hostile acts; the restriction of South African and SWAPO armed forces to established bases under UN monitoring; the phased withdrawal from Namibia of all but 1,500 South African troops and the demobilisation of the citizen forces, commandos and ethnic forces; and the maintenance of law and order.

The proposal states that the Governments of the five 'have consulted with the various parties involved with the Namibian situation with a view to encouraging agreement on the transfer of authority in Namibia to an independent government in accordance with resolution 385, adopted unanimously by the Security Council on 30 January 1976. To this end', the proposal continues, 'our Governments have drawn up a proposal for the settlement of the Namibian question designed to bring about a transition to independence during 1978 within a framework acceptable to the people of Namibia and thus to the international community.' The 'key to an internationally acceptable transition to independence', it points out, 'is free elections for the whole of Namibia as one political entity with an appropriate United Nations role in accordance with resolution 385.' For this a Security Council resolution will be required 'requesting the Secretary General to appoint a United Nations Special Representative, whose central task will be to make sure that conditions are established which will allow free and fair elections and an impartial electoral process'. In this he will be assisted by a United Nations Transition Assistance Group.

The proposal, the five Governments believe, 'provides an effective basis for implementing resolution 385 while taking adequate account of the interests of all parties involved. In carrying out his responsibilities, the Special Representative will work together with the offical appointed by South Africa (the Administrator-General) to ensure

the orderly transition to independence.' However, this 'working arrangement shall in no way constitute recognition of the legality of the South African presence in and administration of Namibia.'

The Electoral Process

The proposal states that 'elections will be held ... to enable the people of Namibia to freely and fairly determine their own future. The elections will be under the supervision and control of the United Nations in that, as a condition to the conduct of the electoral process, the elections themselves and the certification of their results, the United Nations Special Representative will have to satisfy himself at each stage as to the fairness and appropriateness of all measures affecting the political process at all levels of administration before such measures take effect.' To help him carry out his duties satisfactorily, the Special Representative 'will have at his disposal a substantial civilian section of the United Nations Transition Assistance Group'.

'Every adult Namibian', the proposal continues, 'will be eligible, without discrimination or fear of intimidation ... to vote, campaign and stand for election to the Constitutent Assembly. Voting will be by secret ballot', and the date for the beginning of the electoral campaign and procedures connected with the conduct of elections will be 'promptly decided upon so as to give all political parties and interested persons ... a full and fair opportunity ... to participate in the electoral process. Full freedom of speech, assembly, movement and press shall be guaranteed. The official electoral campaign', the proposal adds, 'shall commence only after the UN Special Representative has satisfied himself as to the fairness ... of the electoral procedures. The implementation of the electoral process ... will also have to be conducted to the satisfaction of the Special Representative.'

To meet the objective of free and fair elections, the proposal enumerates certain requirements that will need to be 'fulfilled to the satisfaction of the ... Special Representative'. These are as follows:

1 'Prior to the beginning of the electoral campaign the Administrator-General will repeal all remaining discriminatory or restrictive laws ... or administrative measures which might abridge or inhibit that objective.

2 'The Administrator-General shall make arrangements for the release, prior to the beginning of the electoral campaign, of all Namibian political prisoners or political detainees held by the South African authorities so that they can participate fully ... without risk of arrest, detention, intimidation or imprisonment ....

3 'All Namibian refugees or Namibians detained ... outside the territory of Namibia will be permitted to return peacefully and participate fully ... in the electoral process ....

4 'The Special Representative ... will ensure that Namibians remaining outside of Namibia are given a free and voluntary choice whether to return.'

Cessation of Hostilities

All parties, the proposal states, should observe 'a comprehensive cessation of all hostile acts ... to ensure that the electoral process will be free from interference and intimidation ...'. For this purpose the proposal calls for the following:

1 'A cessation of all hostile acts by all parties and the restriction of South Africa and SWAPO armed forces to base.

2 'A phased withdrawal from Namibia of all but 1,500 South African troops within 12 weeks and prior to the official start of the political campaign. The remaining South African force would be restricted to Grootfontein or Oshivello or both and would be withdrawn after the certification of the election.

3 'The demobilisation of the citizen forces, commandos and ethnic forces and the dismantling of their command structures ....

4 'Provision [to] be made for SWAPO personnel outside the territory to return peacefully to participate in the political process.

5 'A military section of the United Nations Transition Assistance Group to make sure that the provisions of the agreed solution will be observed by all parties'.

The proposal lays 'primary responsibility for maintaining law and order in Namibia during the transition period ... with the existing police forces', and says that the Administrator-General shall, to the satisfaction of the United Nations Special Representative, ensure the good conduct of the police forces and shall take the necessary action to ensure their suitability for continued employment during the transition period. 'It also enjoins 'the United Nations Special Representative [to] take steps to guarantee against the possibility of intimidation or interference from whatever quarter.

'Immediately after the certification of the election results', the proposal goes on, 'the Constituent Assembly will meet to draw up a constitution for an independent Namibia. It will conclude its work as soon as possible so as to permit whatever additional steps may be necessary prior to the installation of an independent Government of Namibia during 1978.' The proposals conclude that 'neighbouring countries shall be requested to ensure to the best of their abilities that the provisions of the transitional arrangements and the outcome of the election are respected. They shall also be requested to afford the necessary facilities to the United Nations Special Representative and all United Nations personnel to carry out their assigned functions and to facilitate such measures as may be desirable for ensuring tranquility in the border areas.'

Mr Vorster's Speech

In his statement on 25 April, Mr John Vorster said that his Government accepted the proposal for Namibia's independence following assurances on certain points which had been given by the five powers. Mr Vorster emphasised that his Government had been given assurances that the role of the Administrator-General, as envisaged, would remain unimpaired and that he would head the administrative structure of the territory. Furthermore, the Special Representative of the Secretary-General would, in carrying out his responsibilities, work together with the Administrator-General to ensure

the orderly transition to independence. Mr Vorster added that, in coming to its decision, his Government had also been decisively influenced by the provision that there should be a complete cessation of hostilities before any reduction in the South African forces took place, that primary responsibility for maintaining law and order during the transitional period should rest with the existing police forces, and that the issue of Walvis Bay[1] was not included in the proposal. Mr Vorster said that he had been advised by the Administrator-General that he had consulted the various political parties and church organisations in the territory and that he was satisfied that the proposal was acceptable to the majority.

Bearing this in mind, Mr Vorster continued, and also the assurance of the five Western powers on the Security Council that their proposal was now in a final and definitive form, and that the five are giving it their unreserved backing, the South African Government accepted the proposal. In accepting it, he went on, his Government was not placing the maintenance of law and order and the security of the people of South West Africa in jeopardy. The people of South West Africa were anxiously and impatiently awaiting their independence which had been promised them not later than the end of this year. South Africa concluded, he added, that it could rely on the co-operation of the five Western powers as well as others concerned to move rapidly in order to realise this goal.

In a statement issued on 25 April the Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, said that South Africa's 'recognition of the role of the United Nations and of the value of international acceptability should pave the way for a similar agreement in Rhodesia, for a United Nations supervised ceasefire, for fair and free elections and for an independent Zimbabwe'.

On 28 April, Mr Sam Nujoma, President of SWAPO (then in New York), called for the reopening of negotiations on the Western plan for a Namibia settlement. Following discussions with Mr Cyrus Vance in Washington on the previous day, Mr Nujoma objected to the Western plan leaving the question of sovereignty over Walvis Bay in abeyance until an elected Namibian majority government is in power; and to the strength and location of the South African force that would remain in Namibia during the transition to independence; and to the nature of the United Nations role in supervising the elections.

Background

Namibia (South West Africa), with an area four times that of Britain, has an estimated population of about 950,000, of whom approximately 46 per cent are Ovambo and 12 per cent are white. The territory's early history was dominated by struggles for possession of the limited area with sufficient rainfall to sustain regular crops – about a quarter of the country – and the narrow belt of grazing land. Elsewhere, desert or semi-arid desert conditions prevail. German claims to sovereignty over the territory (apart from Walvis Bay) were internationally recognised in 1884, and from then until the First World War, when it was occupied by South African forces, South West Africa was administered by the Germans. In 1920, under a League of Nations mandate, South Africa was appointed to administer the territory. When the League was superseded by the United Nations after the second world war, the mandate system was modified to trusteeship. South Africa, however, refused to enter into a trusteeship agreement for South West Africa, or to report to the UN on her administration of the territory, arguing that the mandate had expired with the winding up of the League and that South Africa's sovereignty over the territory was unrestricted. The International Court of Justice examined the issue on several occasions, its advisory opinion being that, while South Africa was not competent unilaterally to alter the status, neither was she legally bound to put it under UN trusteeship. The 1966 General Assembly resolved that South Africa should be stripped of the mandate and the responsibility assumed by a council appointed by the UN. In May 1967 an 11-member Council for South West Africa was set up. In 1968 the General Assembly resolved that the territory should be renamed Namibia and in 1970 it reaffirmed the termination of the mandate. In 1971 the International Court of Justice ruled that South Africa's presence in Namibia was illegal and that her administration should be withdrawn, a conclusion not fully accepted by all UN member states (see pp 464-5, 1975). Moves towards bringing about conditions leading to self determination and independence began in 1972, when the UN Secretary-General was empowered to initiate talks with South Africa. In 1973 the General Assembly recognised the South West Africa People's Organisation (SWAPO) as the authentic representative of the Namibian people. Two member states voted against the resolution, and 17, including Britain, abstained.

In September 1975 a South West Africa National Party[1] proposal for constitutional talks between the representatives of all ethnic groups resulted in the convening of a conference at the Turnhalle in Windhoek. Political parties, such as SWAPO were not invited. A Declaration of Intent was produced envisaging independence in 1978 and an independent government on the basis of a constitution to be finalised after the creation of an interim government. In August 1976 the Turnhalle Conference concluded discussions on proposals which envisaged independence with a form of government guaranteeing the interests of each ethnic group. It announced agreement on the establishment of a multiracial interim government providing for the protection of the interests of minority groups. Subsequently, the UN Council for Namibia rejected the Turnhalle proposals. Then in 1977 the Western members of the Security Council informed South Africa that the Turnhalle proposals would not gain international approval. The Contact Group of senior officials of the five

[1]The deep-water port of Walvis Bay was never a part of the League of Nations Mandate which gave South Africa the authority to administer Namibia – see background notes above.

[1]An off-shoot of the governing South African Nationalist Party.

subsequently began talks with South Africa on how to achieve early and peaceful independence for Namibia.

Enhanced Radiation Warheads

On 7 April the United States announced that President Carter had decided to defer a final decision on whether to produce enhanced radiation warheads (ERWs), the weapon that is sometimes referred to as 'the neutron bomb'. On the same day, the Prime Minister's Office in London issued a statement supporting the United States decision and calling for progress in current arms control negotiations.

The United States statement said that the final decision on whether or not to incorporate enhanced radiation features into its modernised battlefield weapons would be made later, and would be influenced by 'the degree to which the Soviet Union shows restraint in its conventional and nuclear arms programmes and force deployments affecting the security of the United States and Western Europe'. In the meantime, the modernisation of the Lance missile nuclear warhead and the 8-inch artillery system would go ahead, 'leaving open the option of installing the enhanced radiation elements'.

The British statement of support said that the United States decision, which involved a difficult judgment on political and military issues, 'rightly sets this matter in the context of arms control and the balance of forces on both sides'. Mr Callaghan had had consultations with President Carter on this issue during his visit to Washington (see pp 123-4), and he called on the Soviet Union to respond to the United States decision by taking measures 'to moderate the threat which we see from the scale of their build-up of both nuclear and conventional armaments'. The statement ended by looking forward to a successful conclusion of the strategic arms limitation talks (SALT, see pp 11-12); the achievement of a comprehensive test ban treaty (see p 86); progress in the negotiations on mutual and balanced force reductions (MBFR, see p 86); and progress in other matters which would be discussed during the United Nations special session on disarmament this summer (see pp 47-8).

Shorter Notes

PANAMA CANAL TREATIES

The United States Senate approved the first and second Panama Canal treaties on 16 March and 18 April respectively. The first treaty provides for the permanent neutrality and operation of the canal; the second, for the gradual transfer of the control of the canal from the United States to Panama by the year 2000. Speaking in the House of Commons on 9 March (*Hansard*, cols 769-70), the Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, said that Britain – whose ships are the second largest users of the canal – unreservedly supported the treaties 'as a permanent and stable solution to the future of the canal. In our view', said Dr Owen, 'the treaties will ensure the maintenance of the canal as a major international waterway free and open to all ships of all nations.'

ECONOMIC AND SCIENTIFIC AFFAIRS

The Budget 1978-79

A Budget stimulus to the economy of £2,500 million in a full year—nearly all in the form of cuts in personal taxation—is designed to raise output by another 0·75 per cent in the next year which should, as a result, increase the rate of growth in gross domestic product (GDP) to about 3 per cent at 1970 prices in the year to mid-1979, the highest increase for five years. In his Budget statement on 11 April, the Chancellor of the Exchequer, Mr Denis Healey, said that the Budget's first purpose was to encourage a level of economic activity sufficient to get unemployment moving significantly down. The Budget represented a British contribution to the concerted international effort needed to deal with the major problems of the world economy.

BRITAIN AND THE WORLD ECONOMY

In his speech (*Hansard*, cols 1183-208), the Chancellor said that the whole of the industrial world had found the last four years by far the most difficult since the second world war. The enormous increase in oil prices and the reaction to it of the industrial countries had plunged the world into the deepest and most prolonged recession since the 1930s, combined with an unprecedented inflation. The period had been particularly difficult for the British people because they had entered it in 1974 with their economy already badly out of balance, a growing deficit on their current account and severe inflationary pressures.

Four years of painful and difficult decisions had now got the economy into much better balance. Britain's current account had moved into surplus, its financial position had been transformed, the year-on-year rate of inflation was well into single figures and still falling, interest rates were far below the level of four years ago, the money supply was under firm control and Britain had exceptionally high reserves. All this was reflected in the fact that the fourth quarter of 1977 saw a rise of nearly 5 per cent in real personal income after deduction of tax and national insurance contributions—the largest quarterly rise in living standards for nearly six years. But this transformation in Britain's financial situation had not yet been reflected in an adequate growth of output. In consequence, unemployment remained intolerably high, although it had been falling slowly since September. Mr Healey said that it was the first purpose of his Budget to encourage a level of economic activity sufficient to get unemployment moving significantly down. But like all other countries—and more than most—Britain could not isolate itself from the rest of the world, and here the outlook still left much to be desired. Two years ago it looked as if the industrialised world was emerging from the severe recession which followed the increase in oil prices. But that recovery proved more sluggish than expected and 1977 was a disappointing year for nearly all the world. Economic growth in the Organisation for Economic Co-operation and Development (OECD) area was well below the average rate achieved in the 1960s. World trade in manufactures increased by only 3·5 per cent compared with 9·5 per cent in 1976. Although, with an increase of 8 per cent in the volume of its manufactured exports, Britain increased its share of world trade, in general there was very little growth in the country's economy during 1977.

The problems created by the slow growth of the world economy had been made worse by the big payments imbalances between the oil-consuming countries. Some oil-producing countries could not in the short run eliminate their surpluses through trade, so the oil consumers as a group had to face a corresponding deficit. The total current account deficit of the OECD countries rose to around $30,000 million in 1977—a total which included a large increase in the deficit of the United States and a large increase in the surplus of Japan.

One reason for these disparities was that other strong countries had been slow to follow the expansionary lead of the United States. These payments imbalances were at the root of the currency instability of the last few months, which was itself a further threat to world economic growth.

If Britain's problems were to be solved, the Chancellor continued, action needed to be taken on a world scale, because no single country could lead the world out of its difficulties. Indeed, no single country could by itself solve even its own problems. The Prime Minister and the President of the United States had recognised this fact together when they had met at Easter (see p 123) to discuss a programme for concerted action designed to attack simultaneously all the five major problems which were now damaging the world economy—low growth, currency instability, the trend towards protectionism, over-dependence on imported energy, and inadequate flows of stable long-term capital and aid from the surplus countries to countries in deficit, including many in the developing world.

On 10 April the heads of Government of the seven

leading world economies had agreed to develop their policies so as to promote a concerted approach to this group of problems in the months leading up to the Bonn summit meeting in July. The European Council had agreed on 8 April (see p 149) to work with determination for the higher economic growth that this approach required.

This Budget represented a first British contribution towards that common effort as well as meeting the country's national needs.

THE BALANCE OF PAYMENTS AND OVERSEAS DEBT

Mr Healey then turned to the subject of Britain's balance of payments and overseas debt. He said that between 1973 and the middle of 1977 Britain had borrowed large sums overseas to meet the consequences of the oil price increase and the deterioration in the country's terms of trade. Most of these loans had to be repaid in the six years from 1979 to 1984, but as Britain moved into balance of payments surplus and rebuilt its reserves last autumn, the Government was able to start tackling this concentration of debt. It then stood at over $20,000 million. It would not be sensible to aim to pay off the whole of this debt from current account surpluses earned over the next six or seven years. That would add to the problem of current account imbalances in the world and it would not be consistent with the need to expand the country's economy. The Government's aim was, therefore, to combine net repayment of debt year by year, with new borrowing to spread the maturities.

As part of this policy, large amounts of debt were now being repaid ahead of time. In January (see p 72) the Chancellor had announced the prepayment of $1,000 million of Britain's drawings from the International Monetary Fund (IMF). Arrangements for this payment had recently been completed. He could now announce that he would be arranging to prepay a further $1,000 million to the Fund this year. This further step was made possible by Britain's improved position and it was hoped that it would assist the IMF to help other countries. This should be a useful contribution to the concerted approach to world problems to which Britain had committed itself.

In addition to these IMF prepayments, Britain had, since October, repaid or arranged to repay ahead of time, $1,000 million of private market debt. Thus the country's repayments ahead of time, made or already planned, now totalled $3,000 million. A further $1,000 million would also be repaid in 1978 on the due dates as other debt matured in the ordinary way.

The other part of Britain's policy was to make progress with new borrowing. Since last October new loans had been contracted totalling about $630 million from the European Investment Bank and the European Coal and Steel Community. In addition, it was proposed to make a British Government bond issue in the New York market. The issue would be for a total of $350 million in two tranches of seven and 15 years respectively, so it would mature well after the hump of existing maturities. The United States rating agencies had said that they would rate such an issue triple-A, the highest credit rating they could award.

Mr Healey said he believed that, by spreading the burden of debt repayment forwards and backwards in this way, the Government could ensure that it did not unduly restrict the country's ability to expand its economy and to make an appropriate contribution to world growth.

THE FIGHT AGAINST UNEMPLOYMENT

Britain's main objective in the coming years, like that of other countries, must be, the Chancellor stressed, to reduce the intolerable level of unemployment by stimulating demand in ways which created jobs without refuelling inflation. The temporary employment subsidy and other special employment measures (see p 320, 1975), which had now been in operation for three years, were already providing 320,000 jobs or training places.

The Secretary of State for Employment had announced a powerful reinforcement to these measures on 15 March (see p 135) which should increase this figure to 400,000 by March 1979. In a period of world recession such measures brought immense human and social benefits. Their value was shown by the fact that although the number of men and women available for work had been increasing by 170,000 a year, unemployment had been falling slowly for the last six months and job vacancies had been rising. However, Britain could not expect to see the rate of unemployment moving down at an acceptable speed unless new jobs could be created, particularly in profitable firms in manufacturing industry which would strengthen the industrial base on which the whole economy depended.

A Budget stimulus by itself would not necessarily achieve this because, unless British industry could produce and sell the goods required to meet the demand created by any Budget stimulus, that increase in demand would be met by imports and set inflation going again. After some years in which the level of investment had been lower than normal, it was not easy to judge the point at which a demand stimulus might prove self-defeating for this reason, both in terms of jobs and prices. But two things were clear, the Chancellor said. The key to growth and high employment must lie in an improvement in industrial performance, and this Budget must be designed, like the measures last October (see p 426, 1977), as part of a programme for steady and sustained growth which must cover a period of many years.

IMPROVING INDUSTRIAL PERFORMANCE

If the bulk of the additional demand created by this Budget was to be met by British goods then Britain had to make sure that the products of its industry were more competitive in terms of design, delivery and price. An improvement in these fields, Mr Healey pointed out, was the prime objective of the tripartite industrial strategy to which the Government, the Trades Union Congress and the Confederation of British Industry committed themselves afresh in March when they had approved the programmes of the sector working parties for 1978. The main job now was to carry the industrial strategy down to the managers and workers in individual companies and plants throughout the country. The Chancellor ex-

pressed the hope that the whole House of Commons would endorse these efforts because the future of the economy lay ultimately in the hands of those who worked in British industry. If industry was to become more competitive and unemployment was to fall, it was necessary to have better product design, better marketing, more efficient use of plant and materials and more investment in new capacity. The main responsibility had to fall on management and work force in the individual firms and plants. However, the Government had a responsibility for providing an environment which encouraged their work, and it would therefore continue to support the industrial strategy through industrial assistance, training schemes and the National Enterprise Board, and by helping to provide a favourable economic climate. Moreover, industry was now being given priority across the whole range of Government policies, for example, in education and local planning.

Mr Healey said he believed that small businesses had a special role in improving Britain's industrial performance. They had always been a prime source of innovation in British industry and the development of small businesses often produced more additional jobs more quickly than development in the larger firms. They could also play a vital role in regenerating the inner cities and the countryside. For this reason, the Budget would give a special importance to the needs of smaller businesses.

Now that the economy was in so much better balance and the financial situation was transformed, an improvement in industrial performance must be the overriding objective, since this was a precondition for restoring high employment, but this improvement was bound to take time. To the extent that Britain's performance fell short in design, delivery and productivity of that of its competitors, it would have to concentrate on making itself competitive in price.

It remained as true as ever, Mr Healey continued, that inflation was the main enemy of full employment. Monetary policy would be one decisive factor here, but price competitiveness would also depend crucially on reducing industrial costs, of which wages were bound to remain much the most important element. Over the last three years, the British people had given overwhelming support for pay policy, and this had played an indispensable role in keeping industry competitive and in bringing the rate of inflation down. The country owed a lasting debt to the trade union movement for its invaluable contribution here.

The Chancellor stated his belief that the Government could help to support common sense and moderation in pay negotiations both by controlling prices and avoiding unnecessary increases in indirect taxation, and by cutting income tax. But the main responsibility, here again, would continue to lie with the trade unions and employers who actually negotiated on pay.

THE CURRENT PROSPECT

In deciding how much stimulus he could afford to give the economy in 1978-79, Mr Healey said he had to make a judgment about the rate at which British industry could increase its output to meet the consequent demand and about the competitiveness of the goods it produced. The likely development of the economy over the next year or so if he took no further action at all in this Budget had also to be considered. Some trends were fairly clear.

Now that the inflation rate was stabilising at a level well below the increase in earnings, living standards and personal consumption should both rise substantially. Private investment in manufacturing industry rose about 14 per cent in volume in 1977 and was expected to show a similar increase this year, and public expenditure on goods and services was planned to rise significantly. It was more difficult to forecast how Britain's trade performance would develop since assumptions about its competitiveness were crucial here; but it was reasonable to expect that exports would continue to increase substantially, although higher domestic demand would probably lead to faster growth in imports of manufactures.

This led the Chancellor to conclude that, without any stimulus from the present Budget, the economy might grow in the coming year by 2–2·5 per cent, if, as was still the case, these calculations were made at the prices which ruled in 1970. If, on the other hand, the contribution of North Sea oil were valued at the relative prices of 1975 (after the oil price explosion) which it was planned to do for all national income statistics later in 1978, then the increase in oil production would, of itself, add a further 0·75 per cent to the country's growth rate.

Against this broad estimate of the likely growth in the economy without a Budget stimulus, the increase in demand which the Chancellor said he could afford to generate in 1978 depended critically on the outlook for inflation. This, in turn, would depend primarily on two factors—monetary policy over the next 12 months and the outlook for wage costs. So far as the immediate future was concerned, the outlook was now firmly established and success was evident in the figures already available.

The year-on-year inflation rate reached single figures in January—months earlier than the Government had predicted in November 1977—and over the last ten months, the month-to-month increase in inflation had been running at an annual level below 8 per cent. The year-on-year inflation rate was likely to reach 7 per cent in spring or early summer. Unless there was some quite unforeseeable catastrophe, it seemed likely to remain fairly steady at around 7 per cent for the rest of 1978—at about the average rate for most industrial countries and lower than that of some of Britain's competitors, whose inflation rate had been rising rather than falling in recent months. If Britain was to be sure of maintaining at least this level in 1979, then it was necessary to have appropriate policies for dealing both with the money supply and with pay and prices. Mr Healey said he would deal with each of these factors in turn.

Monetary Policy

Monetary policy would continue to play a central role in the Government's attack on inflation. Sterling M3 (see footnote p 25, 1977) had grown by only 0·5 per cent in March, and M1 by slightly less. This confirmed that the trend of monetary growth had come back into the desired range, as Mr Healey had predicted it would after the exceptional but expected jump in January. The figures for 1977-78 as a whole

would probably be just above the 9–13 per cent range but under 14 per cent. But this was a year in which the money supply in Britain, as in Germany, was substantially increased by inflows of foreign currency—a factor which the Government had taken action to correct in October 1977 (see footnote, p 424, 1977).

For the coming year, 1978-79, it was intended to continue using monetary targets, with certain changes. Over the last year, as Britain had moved into surplus on its balance of payments, greater attention had rightly focused on sterling M3, the wider measure of money supply, rather than domestic credit expansion (DCE). It was right to recognise this by making a target range for sterling M3 the focus of monetary policy. It was also intended to adopt a system of rolling targets, in which the target was rolled forward once every six months. This would enable the Chancellor regularly to reassess progress on the monetary front in relation to developments in the rest of the economy and either to continue with the existing target range or to modify it. For example, if events moved as hoped on counter-inflation policy, it would be appropriate to consider in the autumn whether to lower the target range.

The target range for sterling M3 for 1978-79 would be 8–12 per cent. The corresponding level of DCE would be below the £6,000 million which was set out in the Letter of Intent the Chancellor had written to the International Monetary Fund in 1976 (see p 22, 1977). This would provide both for a reduction in the rate of inflation and for an increase in economic growth and it should also provide ample room for the likely increase in bank lending to industry.

In Britain, as elsewhere, the rate of growth of the money supply was bound to fluctuate significantly from month to month. As in 1977, it was likely to be significantly above or below the desired range from time to time. In so far as it was possible now to identify the sort of factors which might cause such fluctuations, Mr Healey said he would expect the growth to be higher at some stages in the first half of 1978 than in the year as a whole. In particular, the timing of central Government receipts and payments might cause jumps in certain months similar to that experienced in January.

The Chancellor said he would naturally use whatever instruments of monetary policy were appropriate as the year proceeded. He hoped that gilt-edged interest rates would fall later in the year as it became clear that further progress in the fight against inflation was being made. At the moment, however, sterling short-term interest rates were on the low side, both in relation to controlling the domestic money supply and by comparison with United States and eurodollar rates, given recent developments in the exchange markets. With his approval, therefore, the Bank of England was that afternoon raising its minimum lending rate from 6·5 to 7·5 per cent.

Pay and Prices

Within the framework of this monetary policy, it was also necessary to ensure that rising prices and earnings did not make Britain's industry uncompetitive. This would require co-operation from employers and trade unions alike. Britain had to start with a collective determination to ensure that it did not allow the rate of inflation to begin rising again from the levels expected to be reached this summer. On the contrary, it had to aim at a further fall. This would not be easy to achieve. Over the last 12 months the country had been helped in getting the rate of inflation down by the appreciation of its currency and by the fall in world prices which accompanied the fall in world economic growth and trade. Similar assistance could not be relied on in the next 12 months. That was why the forecast in the 1978-79 *Financial Statement and Budget Report* (see below) showed an increase of 1 per cent in the inflation rate by the middle of 1979, even assuming that earnings increased by only half as much in the next pay round as was likely in this round. Earnings in fact would be the key to the inflation rate in 1979. Although they had increased in the current round far less than most observers expected a few months ago, they were still growing faster in Britain than in most of the competitor countries, and the nation's productivity was growing more slowly. It would not be possible to prevent the rate of inflation from rising significantly in 1979 unless much lower levels of increase in wage costs than in 1978 could be achieved. If this were not achieved then, whatever the size of the stimulus given to the economy in this Budget, Britain could not expect to keep control of prices or to see the faster fall in unemployment at which it aimed.

Mr Healey said he therefore proposed early discussions with the representatives of both sides of industry to see, first, whether they agreed with the Government that inflation must be kept moving down in 1979 and, second, what policies were appropriate in the field both of prices and of earnings to ensure that this objective was achieved.

He believed that the success met in fighting inflation over the last few years both through control of the monetary aggregates and through the policy for pay and prices provided reasonable grounds for confidence that progress could continue to be made in the fight against inflation in the next 12 months.

THE SIZE AND NATURE OF THE STIMULUS

It was on this assumption, the Chancellor continued, that he had made his judgment about the size of the stimulus which he could deliver to the economy in 1978. The total size of the stimulus had, however, to depend not only on the assumptions about inflation but also on the nature of the stimulus itself. It could be larger to the extent that it was clearly designed to improve industrial performance and to strengthen the prospects of success in the fight against inflation.

The objective of the measures in his Budget was to provide additional support for the industrial strategy, partly in the form of direct help for business, particularly for small firms, and partly by strengthening the incentive to effort at all levels in industry through cuts in income tax. It was his belief that by using tax cuts to increase the real value of the pay packet during the coming year he could encourage further moderation in pay settlements and a continuing fall in the rate of inflation. He said that he recognised, too, that if the Budget measures were to generate the support of working people for the nation's economic objectives, they had also to contribute directly towards the relief of poverty, to the fight against unemployment, to the improvement

of the social services and to the achievement of a more compassionate and fair society. The measures he was about to describe were designed specifically to achieve these objectives.

He had concluded that it would be right to give a full year stimulus to the economy of some £2,500 million – or about £2,000 million in 1978-79. The measures should raise output by another 0·75 per cent in the next 12 months and, as a result, GDP should increase by about 3 per cent at 1970 prices – the highest increase for five years. He was satisfied that this could be done without either prejudicing monetary objectives and refuelling inflation or overstraining productive capacity.

Mr Healey said that, as a result of this Budget stimulus, the public sector borrowing requirement (PSBR) this year would be within the ceiling he had set in his letter to the IMF in December 1977 (see p 17). The forecast showed a PSBR of £8,500 million or 5·25 per cent of GDP, reflecting a general government financial deficit which, at 4 per cent of GDP, would be no higher than that, for example, of the Federal Republic of Germany. In fact, the PSBR for 1977-78 as forecast in last year's Budget was exactly the same as the current forecast for 1978-79 – £8,500 million. The estimated outturn for last year, however, was now £5,700 million – nearly £3,000 million lower, despite additional cuts in taxation during the year.

Of all the elements in the forecast the PSBR was the most difficult to estimate correctly. But even if the PSBR for 1978-79 was as high as forecast, the higher level of government debt needed to finance it would be counter-balanced by the reduced need to sell gilts to offset the domestic effects of inflows across the exchanges, which were very substantial in 1977-78. The funding of the PSBR outside the banking system would be helped by direct sales of certificates of tax deposits, mainly to companies, and of national savings to individuals. A new issue of savings certificates had been announced that day, with a yield of just under 6·8 per cent a year over its four-year life, and a maximum holding for any one saver of £2,000.

This would mean that the forecast requirement for gilt sales would probably be much the same in money terms as the sales achieved in the last two years and somewhat smaller in relation to the institutional funds which were likely to be available. Thus the Chancellor foresaw no difficulty in financing the PSBR for 1978-79 consistently with the new monetary guideline of 8–12 per cent.

PUBLIC EXPENDITURE

Mr Healey then turned to the Budget measures. He said that in October 1977 he had announced an increase in the plans for public expenditure in 1978-79 of £1,000 million at 1977 Survey prices, including £400 million on construction and over £300 million on raising the rate of child benefit to £2·30 from April 1978. These increases were included in the Government's expenditure plans as set out in the public expenditure White Paper last January (see p 52). The White Paper had also made provision for the statutory uprating of the main social security benefits in line with earnings or prices as appropriate.

The Government had therefore decided to increase in November the rate of pension by £3·20 to £31·20 for a married couple, and by £2 to £19·50 for a single person. This was likely to represent an increase of over 4 per cent in real terms. The real value of the pension would thus have risen by over 20 per cent since the Government came to office when the married pension was £12·50 and the single £7·75. The Secretary of State for Social Services would shortly be announcing the full details of the uprating (see p 184), including the increases in short-term benefits. Altogether, these improvements would be worth around £500 million in 1978-79 and £1,300 million in a full year. The revised national insurance contribution rates for 1978-79 now in payment were announced by the Minister for Social Security in December 1977 (see p 102).

The Government's plans provided a contingency reserve of £750 million at 1977 Survey prices to cover additional public expenditure measures in 1978-79. The Chancellor said that the Government had now decided to allocate a substantial part of the contingency reserve to such measures. He said the first call on this sum was for the employment measures which the Secretary of State for Employment had announced in March (see p 135). The extra cost of these additional measures to employment programmes in 1978-79 was estimated at about £156 million and in 1979-80 at about £144 million. As he had said earlier, these additional measures, combined with the others previously announced, would protect or provide about 400,000 jobs or training places by March 1979. The Government was also making available further sums in 1978-79 to expand other programmes which were of particular social and economic importance at this time. Within the social services it was giving, on this occasion, the highest priority to health and education. There would be an allocation of £50 million in 1978-79 for the health service in Britain for specific improvements in services for patients. These would vary from place to place but there would be, for example, extra resources for the full opening of newly completed hospitals, facilities to cut waiting lists, more staff to help care for the elderly and handicapped, and over 400 extra kidney machines. Education would receive £40 million to cover a higher rate of capital expenditure by local education authorities on schools and colleges and there would be additional funds for retraining teachers in subjects like mathematics, science and crafts where there was a shortage.

There would also be £20 million for environmental services, including the building of small factories in rural areas by the Development Commission, and for preserving the coastline. There would be provision for higher expenditure on law and order – such as police and prisons and the probation services; special assistance for certain areas affected by early steel closures; and a small extra sum for sea defences in addition to the help announced for farmers affected by storm and flood damage earlier this year. Finally, funds would be made available to promote insulation of private houses and to launch a further scheme to promote energy saving in industry and commerce. Mr Healey said he thought this would make a helpful contribution to the energy objectives of the concerted international programme he had mentioned.

These decisions would provide useful additions to a wide range of public expenditure programmes and would also bring some further help to the construction industry.

The other increases in expenditure were designed to help the family budget. The Government had decided that the proposed autumn increase in the charge for school meals would not take place. It had also decided to take advantage of the European Community subsidy for school milk by enabling local education authorities to provide free milk for 7-11-year-olds. The net cost of these two measures was about £68 million in 1978-79.

Finally, the Government was raising child benefit again. As the Chancellor had announced last summer (see p 243, 1977), child benefit was raised in April 1978 to £2·30 a week for all children, and the premium for the first child of one-parent families doubled to £1. The Government had now decided that the child benefit rate would be increased in April 1979 to £4 for all children. Meanwhile, as a first instalment of this increase, child benefit would be increased by 70p to £3 for all children in November 1978. In addition, the premium for children of one-parent families would be doubled from £1 to £2 in November.

The cost of these increases in 1978-79 would be around £165 million. They would give a further major boost to child support for working families. Those dependent on social security benefits would, of course, gain from the general social security uprating which he had just announced.

In deciding on these measures of additional expenditure for 1978-79, the Government had regarded it as an essential principle that their cost should be met within the public expenditure plans published in January. Accordingly, the cost would be met from the contingency reserve for this year.

It had been argued from many quarters, the Chancellor continued, that the Government should take major expenditure decisions on measures affecting people's incomes, such as child benefit, at the same time as its main decisions on taxation. The two could then be seen in relation to each other. He believed it was right that the Government should have taken now its principal remaining decisions affecting 1978-79. Just under £200 million at 1977 Survey prices remained available in the contingency reserve. Any contingencies requiring additional expenditure in the remainder of the year would be met within this figure.

The Government would consider the programmes for 1979-80 and subsequent years in the public expenditure Survey. It remained its firm intention to contain the growth of expenditure planned for those years within the growth which could be expected in the economy as a whole.

TAX AND BUSINESSES

Mr Healey then turned to his proposals on taxation. He said that a major purpose of his Budget was to adjust taxation so as to help and improve industrial performance. The business tax system was generally recognised as giving very generous incentives to new investment, and the scheme for stock relief which he had introduced in 1974 had also been of immense value to industry (see p 428, 1974). He thought the House of Commons would agree that what industry required now was stability in its tax environment. He had therefore decided again to make no major changes this year in the rate of corporation tax or in the levels of investment incentives.

In his 1977 Budget (see p 152, 1977), he had said that the stock relief scheme would continue in its present form for 1977-78 and 1978-79. He had then hoped that the debate on current cost accounting might by now have reached the stage where the Government could have moved to a permanent scheme of relief. However, it was now clear that more time was needed for discussion of inflation accounting and, when an accounting standard had been agreed, tried and tested, for deciding how far it could be used for tax. He intended, therefore, to retain the present scheme for 1979-80, and to continue it indefinitely until a permanent scheme could be introduced.

However, he recognised that there was continuing concern about the build-up of deferred tax liabilities in company accounts and the effect that this might have on the raising of investment capital and investment decisions. This was a matter which could best be dealt with as part of the permanent scheme. He wished, however, to dispel any anxiety among industrialists that, with the present scheme continuing indefinitely, they might be faced with a mounting volume of potential tax liabilities.

He therefore gave an assurance that if, this time next year, the Government was still unable to see what form a permanent scheme would take, it would introduce legislation to limit the build-up of these liabilities as follows. First, the balance of the relief for the first two years of the scheme would be written off. Second, the Government would build into the present scheme similar provisions for a write-off of so much of the relief for each subsequent year as remained after a six-year period. This would remove the major criticisms which industry had of the present arrangements and would enable stock relief to continue in more or less its present form until a permanent system was available.

Small Businesses

While overall stability was his main purpose so far as company tax in general was concerned, the Chancellor believed that, where small businesses were concerned, a significant improvement in industrial performance could be expected from some easing of the tax regime. In his statement last October, he had announced the first changes which were proposed in the tax treatment of small firms and in particular a big increase in the relief for capital transfer tax (CTT). He said he could now outline the firm decisions made on the matters which were then under review. First, he intended to raise the profits limit for the small companies' rate of corporation tax from £40,000 to £50,000 and to increase the limit for marginal relief from £65,000 to £85,000. Next, he intended to provide that a business man who made trading losses in the early years of an unincorporated business would be able to set them against income received in previous years. He also proposed to give relief similar to that for employees last year to self-employed people

and members of partnerships who were resident in Britain and worked abroad.

The Government was also proposing substantial relaxations in the capital gains tax rules for small businesses. He intended, as foreshadowed last October, that capital gains tax on gifts of business assets, either within a family or to employees, should be deferred until the assets were sold. This would be a major help in passing on a business. In addition, the Chancellor proposed that losses on loans and guarantees should henceforward qualify for capital gains tax relief. This would encourage investment in family companies. Finally, he intended to raise the limit for retirement relief from its present level of £20,000 to £50,000. A very large increase was, he thought, justified here to help the small businessman who had worked hard all his life to build up a modestly successful business. Finally, he was concerned to limit the burden of value added tax (VAT) on small firms. He was proposing to make a number of changes in the administration of the tax and, in particular, to raise the registration limit to £10,000 and to allow relief against VAT for bad debts in insolvencies. He was sure that these changes would be welcome. The Government was still considering what further proposals it could reasonably make to help small businesses and encourage investment in them. He proposed now, however, to give extra help to two particular sectors. First, to farmers: he thought it was generally accepted that farmers were in a unique position, partly because the weather could produce substantial fluctuations in their income, and partly because farming was a highly capital-intensive industry requiring substantial investment. He had, therefore, decided to allow farmers to average their incomes for tax purposes when they varied by 30 per cent or more between two years and to increase the agricultural building allowance in the first year to 30 per cent.

Second, to the hotel industry: in recent years a substantial increase in tourism had made an important contribution to Britain's invisible export earnings. He therefore proposed that any expenditure incurred after 11 April on the construction or extension of a hotel with at least ten bedrooms should qualify for capital allowances at the rate of 20 per cent initial allowance and 4 per cent annual allowance. These measures would provide a valuable incentive to such businesses.

Profit-sharing

Mr Healey also wished to encourage profit-sharing in the 1978 Finance Bill. Profit-sharing schemes could encourage the employees of a company to identify themselves more closely with their company. This could help to improve the relationship between employees and employers, encourage greater efficiency and stimulate growth. However, if it was not simply to give relief to the higher paid, there had to be a ceiling to the amount of relief to which any one taxpayer could be entitled; so there would be a limit of £500 a year to the value of shares which could be allocated tax-free to any one employee. The Chancellor's proposals would take effect from 1979 and would broadly follow Method III as set out in the Inland Revenue's consultative document published in February (see p 63). There would be full details in the Finance Bill.

Capital Gains Tax

Mr Healey said he had studied very carefully the representations which the Inland Revenue had received on its consultative document on capital gains tax and inflation. He had to conclude that the practical problems for taxpayers, their advisers and the Inland Revenue alike in any scheme for indexation or for tapering would be too great. Moreover, he did not think it would be right to give relief for inflation to investors in shares and land while investors in building societies and other fixed interest loans received none – and while an investor could benefit from the decrease in the real value of his own borrowings. But to lighten the burden on small investors he proposed that an individual's gains up to £1,000 in any year should be exempt and gains between £1,000 and £5,000 charged at 15 per cent, that is, at half the full rate. A marginal relief would secure that only large gains of £9,500 or more in a year would bear the full rate. These provisions would apply to the year just ended and would replace the present exemption for small disposals and the alternative basis of charge which many people had had difficulty in understanding.

Tax Avoidance

Tax avoidance had emerged recently in a new form which involved marketing a succession of highly artificial schemes – when one was detected, the next was immediately sold – and was accompanied by a level of secrecy which amounted almost to conspiracy to mislead. The time had come, not only to stop the particular schemes the Government knew about, but to ensure that no schemes of a similar nature could be marketed in future. The provisions he would be introducing in 1978 to deal with artificial avoidance by certain partnerships dealing in commodity futures would go back to 6 April 1976, that is, before the date when the intention to legislate was announced in Parliament.

His proposed measures against avoidance by means of land sales with the right to repurchase would go back to 3 December 1976; and he would from 11 April counteract devices for avoiding the capital transfer tax charges on discretionary trusts and avoidance of CTT through the use of associated endowment and term life policies.

TAX AND INDIVIDUALS

The Chancellor then turned to his proposals for personal taxation. He thought it was now generally recognised that, while the total burden of taxation in Britain was well within the international average, the proportion of total revenue derived from income tax was still too high, although he had already reduced it significantly in the last three years. Cuts in income tax would, therefore, account for almost all the £2,500 million stimulus which he had announced. He knew that some Members of Parliament thought it would be right to cut income tax in 1978 by a much larger sum and offset the additional costs by increases in indirect taxation. In principle he had some sympathy with this view, but he believed that in 1978 the Government had to consolidate and reinforce its success in the fight

against inflation so that it could, for good and all, bring down the inflationary expectations which had damaged the economy in recent years in so many ways. In this situation he could not believe it would make sense for the Government deliberately to raise the inflation rate and increase the cost of living. He would, therefore, leave the indirect taxes generally unchanged on this occasion with one exception. To discourage the smoking of cigarettes which had a higher tar yield, he intended to introduce from 4 September a supplementary duty on cigarettes with a tar yield of 20 milligrammes or more. If the manufacturers fully passed on this increased duty in prices they would raise the price of 20 of these cigarettes by about 7p. About 15 per cent of cigarettes would be affected. This supplementary duty was not designed primarily to raise revenue – it could bring in only £25 million in a full year at most – and if it resulted in leading smokers to abandon these high tar cigarettes, no one would be more pleased than he. In any case, the Chancellor said, the effect on the retail price index would be negligible.

He had also been asked to consider an increase in the national insurance surcharge. The share of employer social security contributions and payroll taxes in total revenue was a good deal lower in Britain than in most other countries of the European Community, but Mr Healey did not believe it would be right to increase it so soon after it had been introduced, and at a time when unemployment was Britain's major problem. It would increase industrial costs at a time when it was essential to improve competitiveness and it would ultimately be largely passed on in higher prices at a time when the fight against inflation was at a crucial stage.

The proposals he had announced so far left £2,400 million for reductions in income tax. He had considered carefully how they should be distributed so as to further the objectives he had set himself to increase the incentive for greater effort and to promote social justice. He thought it right to regard this Budget as the second phase in a process which he had initiated last autumn. He had told the House of Commons in October that, as well as increasing the plans for public expenditure in 1978-79, he was raising the level of the personal allowances fixed in the 1977 Finance Act by 12 per cent in order to ensure that their real value was maintained, and that he was bringing forward this increase in tax thresholds by 12 months compared with the date provided for in the Act. In practice this increase of 12 per cent had turned out to be slightly higher than the increase in the retail price index over the calendar year 1977. The question he had had to decide for this Budget was whether he should devote the bulk of the tax relief now available to raising the tax thresholds still further, or whether he should introduce a lower initial rate of tax, since he had already more than fulfilled his obligation to index tax thresholds. He had been particularly impressed by the argument that the rate at which people become liable to enter income tax was too high; it was indeed, the highest in the world. It meant that many of the lower paid were little better off in work than when receiving unemployment benefit. He could not believe that this made sense in either economic or social terms.

He proposed, therefore, to introduce a lower rate of tax, at 25 per cent, on the first £750 of taxable income. This new lower rate would be the marginal rate of tax for some four million of the lower paid. Most taxpayers now caught in the poverty trap would find its impact that much less severe because their tax would be nine percentage points lower than now. Other taxpayers would be £1·30 a week better off as a result of this change alone. Mr Healey hoped it might be possible to extend this lower rate band in future years. He still believed, however, that it was necessary to raise the tax threshold as far as possible above the main social security benefit levels and to take as many people as he could out of tax altogether. He therefore proposed to raise the single person's allowance and the wife's earnings allowance in 1978 by a further

Table 1

Summary of Central Government Transactions

£ million

	1977–78		1978–79 forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
Consolidated Fund				
Revenue	37,742	38,773	44,706	42,746
Expenditure	43,489	43,989	51,378	51,378
Deficit	–5,747	–5,216	–6,672	–8,632
National Loans Fund				
Consolidated Fund deficit (as above)	–5,747	–5,216	–6,672	–8,632
Other transactions:				
Receipts	5,300	5,192	6,400	6,400
Payments	–7,188	–6,136	–7,640	–7,640
Total net borrowing by the National Loans Fund	–7,635	–6,160	–7,912	–9,872
Other funds and accounts (net)	+776	+1,666	+1,935	+1,935
Central Government Borrowing Requirement	**–6,859**	**–4,494**	**–5,977**	**–7,937**

Table 2

Taxation and Miscellaneous Receipts

£ million

	1977–78		1978–79 forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
Taxation				
Inland Revenue				
Income tax	18,065*	17,420	21,227	19,310
Surtax	30	30	15	15
Corporation Tax	2,560*	3,346	4,188	4,170
Petroleum revenue tax	5	—	170	170
Capital gains tax	330	340	390	375
Development land tax	5	7	10	10
Estate duty	70	87	50	50
Capital transfer tax	320*	312	320	320
Stamp duties	320	375	440	440
Total Inland Revenue	*21,705**	*21,917*	*26,810*	*24,860*
Customs and Excise				
Value added tax	4,250	4,226	4,795	4,775
Oil	2,550*	2,465	2,500	2,500
Tobacco	2,150	2,056	2,440	2,450
Spirits, beer, wine, cider and perry	2,050	2,062	2,400	2,400
Betting and gaming	315	320	350	350
Car tax	250	286	325	325
Other revenue duties	10	10	10	10
Protective duties, etc.	690	676	765	765
Agricultural levies	135	183	175	175
Total Customs and Excise†	*12,400**	*12,284*	*13,760*	*13,750*
Vehicle excise duties	1,068	1,072	1,120	1,120
National insurance surcharge	1,159	1,163	1,475	1,475
Total Taxation	36,332	36,436	43,165	41,205
Miscellaneous Receipts				
Broadcast receiving licences	250	294	317	317
Interest and dividends	225	240	264	264
Others‡	935	1,803	960	960
Total	**37,742**	**38,773**	**44,706**	**42,746**

* Changes in the Finance Act 1977 and the Finance (Income Tax Reliefs) Act 1977 reduced the Budget forecast of income tax to £17,069 million, of capital transfer tax to £310 million and of the duties on oil to £2,400 million; the forecast of corporation tax was increased to £2,587 million. The overall effect was to reduce the Budget forecasts of total Inland Revenue duties and total Customs and Excise duties to £20,726 million and £12,250 million respectively.

† Customs duties and agricultural levies are accountable to the European Community as 'own resources'.

‡ Includes the 10 per cent of 'own resources' refunded by the European Community to meet the costs of collection.

£40 to £985 and the married allowance by £80 to £1,535. This increase in tax thresholds would help widows and also provide the family man with special help during the second stage of the transition to the child benefit scheme. The additional child benefit which mothers were now receiving would, in general, more than offset the effect on family income of the reduction in the child tax allowance which the Government had already announced. But he believed it was also important to ensure that this change did not reduce the father's pay packet, and for this reason he was increasing the married allowance by twice as much as the increase in the single allowance. The Chancellor proposed, as in 1977, to ensure that the allowance for one-parent families was kept in line with that for two-parent families by increasing the additional allowance by £40 to £550.

Pensioners with a modest additional income had a special problem. He therefore proposed to increase the age allowance a little more than personal allowances generally – by £50 for the single person and £100 for the married – and to raise the age allowance income limit to £4,000. The cost of these measures would be £2,150 million, of which nearly £1,600 million was attributable to the lower band, and just over £550 million to the increases in the personal allowances. As a result of these increases, 360,000 people who would otherwise have been paying income tax in the coming year would not now do so.

Mr Healey said that, although last October he had

increased the thresholds for the basic rate of tax by 12 per cent, he did not at that time similarly index the threshold for the higher rates of tax. If he did not raise this now, people with no more than one and a half times average earnings would move into higher rate liability this year. He proposed, therefore, to raise the upper limit of the basic rate from £6,000 to £7,000. This would mean that a married man with earnings of £8,500 would not be liable to tax at the higher rate, even if he was entitled to no allowances other than his married allowance. As a result, 450,000 people who would otherwise have been paying tax at the higher rate would not have to do so. This would be of particular advantage to highly skilled engineers, foremen and middle managers.

He also proposed to increase the thresholds to the successive higher rate bands. The 40 per cent band would, as now, be £1,000 in length. This would be followed by two bands of £1,000, two of £1,500, one of £2,000, one of £2,500 and one of £5,500. The 83 per cent rate would thus be reached at a taxable income of £23,000 as compared with the present £21,000.

There was a similar case for raising the thresholds for the surcharge on investment income. He proposed, therefore, to raise the general threshold to the 10 per cent rate of surcharge from £1,500 to £1,700 and the threshold to the 15 per cent rate from £2,000 to £2,250, in line with the rise in prices. However, it was significant, the Chancellor continued, that nearly half of those liable to the surcharge were over 65, and two-thirds of these had incomes below the higher rate threshold. He therefore intended, in addition to the increase he had already announced, to help those elderly people

Table 3

Supply Services and Consolidated Fund Standing Services

£ million

	1977–78		1978–79 forecast	
	Budget forecast	Outturn	Before Budget changes	After Budget changes
Supply Services				
Defence	6,298	6,754	6,886	6,886
Overseas aid and other overseas services	962	1,065	1,062	1,062
Agriculture, fisheries, food and forestry	502	653	535	535
Trade, industry and employment	2,945	2,683	3,039	3,039
Roads and transport	1,235	1,261	1,266	1,266
Housing	2,449	2,498	2,618	2,618
Other environmental services	217	234	299	299
Law, order and protective services	1,145	1,182	1,249	1,249
Education and libraries, science and arts	1,575	1,645	1,740	1,740
Health and personal social services	5,578	6,015	6,163	6,163
Social security	5,025	5,227	6,683	6,683
Other public services	982	1,032	1,071	1,071
Common services	988	1,023	1,157	1,157
Northern Ireland	528	884	592	592
Rate support grant, financial transactions, etc.	7,511	7,887	7,968	7,968
Total	*37,940**	*40,043*	*42,328*	*42,328*†
Allowance for price changes (rounded)	2,200	—	2,400	2,400
Supplementary provision‡	9	—	1,450	1,450
Total Supply Services at estimated outturn prices	40,149	40,043	46,178	46,178
Consolidated Fund Standing Services				
Payment to the National Loans Fund in respect of service of the national debt	1,740	2,220	3,160	3,160
Northern Ireland – share of taxes etc.	688	689	786	786
Payments to the European Communities, etc.	895	977	1,237	1,237
Contingencies Fund	—	43	—	—
Other services	17	17	17	17
Total Consolidated Fund Standing Services	3,340	3,946	5,200	5,200
Total	**43,489**	**43,989**	**51,378**	**51,378**

* At 1977–78 Estimate prices.
† At 1978–79 Estimate prices.
‡ For 1978–79 this includes further provision for subscription of capital to the British Steel Corporation under the Iron and Steel Act 1975, within the corporation's cash limit; reallocation as between Supply Services and the National Loans Fund of Government financing of the National Enterprise Board, notably for British Leyland, and the net increase in Supply Votes to take account of the allocations from the contingency reserve described in the Budget Statement.

iving on relatively modest income from savings by increasing the real value of the surcharge thresholds for them. He proposed that, for those over 65, the thresholds for the 10 per cent rate should go up from £2,000 to £2,500, and for the 15 per cent rate from £2,500 to £3,000. Finally, he proposed that maintenance payments should be wholly exempted from the surcharge with effect from this year.

The changes in the personal allowances would take effect under the Pay-As-You-Earn scheme on the first pay day after 10 May. Single people and earning wives earning over £19 a week would, in general, then get a refund of £1·30, and they would thereafter pay 26p a week less in tax. The refund for married men earning over £30 a week would, in general, be £2·60 and the weekly reduction for them would be 52p. The new tax tables giving effect to the changes in rates of tax, including the lower rate band, would operate from mid-July. There would then be a further refund of about £18 and a further reduction in tax of £1·30 a week.

Living Standards and Pay

Mr Healey then explained the effect of his Budget on living standards. He said that with the usual Budget tables, he was arranging to have published this year, as in the last two years, tables which showed the effect of his tax changes on individuals at different levels of earnings. In order to illustrate this, he took first the example of a man earning £75 a week who had a wife and two children under 11. The tax reliefs in the Budget would give him an extra £1·82 a week in his pay packet. As he had said, however, these tax reliefs were only the second phase of the process which had begun last October, when he had received an extra £1·05 a week. From the beginning of this April, the new provisions for child benefit and child tax allowances had come into force, as well as the increased national insurance contributions.Taking all these into account, the £75-a-week family was better off by £3·32 and, when the child benefit rose in November by a further 70p for each child, the family would be better off by a total of £4·72 a week. These calculations did not, of course, take into account the effects on living standards of wage increases over the current pay round. Taking again the man on £75 a week, if his earnings rose by 10 per cent in accordance with the Government's guideline, his standard of living would rise by nearly 6 per cent in real terms between August 1977 and August 1978 as a result of last October's measures and those just described.

The man earning £50 a week would do even better: his living standards would rise by nearly 7·5 per cent. On the same basis, a single man on £75 a week would be about 4·75 per cent better off, and one on £50 a week would be just over 6 per cent better off.

Thus, he concluded, he did not in this Budget make any call for sacrifice. With the rate of inflation remaining low, and with these substantial tax reliefs, modest increases in earnings should ensure that real living standards could continue to rise over the year ahead without unduly increasing industrial costs. This was the best possible recipe for commercial and industrial success. It was the only recipe for curing unemployment.

BUDGET STATISTICS

Tables, 1, 2, and 3, taken from the *Financial Statement and Budget Report 1978-79* (HMSO, £1·40, ISBN 0 10 231078 5), show the major items in central Government's expected revenue and expenditure and its borrowing requirement for the year 1978-79.

DEBATE ON THE BUDGET

Opposition View

Sir Geoffrey Howe, speaking for the Conservative Opposition on 12 April, said that he agreed with the Chancellor that the Government had the responsibility for providing an environment which encouraged people in their work, but it had failed to offer this. He said there were two halves to the encouragement which had to be undertaken. On the one hand, it was necessary to seek for the regulations and controls which checked and inhibited enterprise and made it more difficult to succeed, for example, in exchange controls where the barriers should be opened. On the other hand, it was necessary to switch the shape and burden of the tax system from taxes on income to taxes on spending. He said that a substantial reduction was needed in the basic rate of tax, the top rate of tax should be brought down at least to 60 per cent and the real value of higher rate bands needed to be restored.

Liberal Party View

Mr David Steel, speaking for the Liberal Party, said that he was disappointed that the Government had not reduced the standard rate of income tax and that it had chosen so narrow a lower rate band. In its statement to the Government, the Liberal Party had proposed that a shift in the burden of taxation should be made by putting more on to expenditure. It had also proposed the standardisation of value added tax at 10 per cent and increased taxation on alcohol and tobacco.

Commonwealth Ministerial Meeting on the Common Fund

A meeting of Commonwealth ministers from 32 countries was held in London on 13 and 14 April to review the state of the negotiations on the Common Fund for Commodities. The conference met under the chairmanship of the British Secretary of State for Trade, Mr Edmund Dell. Addressing the meeting on 13 April, Mr Dell reaffirmed Britain's commitment to the creation of a Common Fund to supplement the work of individual commodity agreements in reducing fluctuations in world commodity prices. Mr Dell also spoke of the need for realism about the kind of fund which would be acceptable to a wide range of countries, both developed and developing.

Following the conference a communiqué was issued representing the general agreement of the Commonwealth on the need to work for the early establishment of the fund as a key element in attaining the objectives of the Integrated Programme for Commodities adopted by the fourth United Nations Conference on Trade and Development (UNCTAD) at Nairobi in 1976 (see pp 285-8, 1976).

British Views

In his opening statement to the conference, Mr Dell[1] spoke of Britain's long-standing commitment to seeking international commodity agreements and arrangements wherever these were feasible and economic (see pp 189-91, 1975). 'The most important issue of principle in the whole debate on the fund – whether the fund should be established at all', said Mr Dell, 'has, as far as . . . [Britain] is concerned, been finally settled.' He continued: 'The problems now are . . . simply how and on what basis the fund should be set up.' Britain, said Mr Dell, wanted the fund to be created on a realistic basis in the interests of producers and consumers alike.

Appealing for realism about the kind of Common Fund which a wide range of countries – both developed and developing – would be able to accept, Mr Dell said that the immediate priority was to get negotiations restarted and the fund established. A limited fund which could actually be established was worth any number of ambitious but impracticable schemes which never got off the ground. No one could say, he added, 'how a new institution like the fund might evolve and develop over time'.

Mr Dell spoke of the solid advantages of the proposals on the Common Fund put forward by the 'Group B' developed countries[1] at the last session of the UNCTAD negotiating conference. He said that the Group B approach was designed to facilitate the financing of new commodity agreements by providing access to credit through the fund; that Group B recognised that importing as well as producer countries should share the cost of new buffer stocks, whether these were financed through levies on trade or through government contributions; and that Britain saw the proposals only as a basis for discussion and negotiation which must mean movement on all sides.

Mr Dell went on to identify points on which the Commonwealth representatives could usefully focus. 'It is fundamental in our view', he said, 'that producers and consumers in the international commodity agreements must retain the prime responsibility for buffer stock financing. Theirs are the interests affected by stocking operations: they alone can sensibly decide how much money should be made available and how it should be used. It follows that the fund, as a stock-financing facility, must be based primarily on financial commitments given by producers and consumers through commodity agreements. But within this parameter', Mr Dell continued, 'there are some major issues to be discussed and negotiated: the fund's capacity to borrow and the basis on which that capacity could be guaranteed by governments; the fund's liquidity position, especially in its early stages of operation; the role of the fund's own member governments, for example in relation to its overhead expenses; the levels of deposits with and borrowings from the fund by commodity agreements, including levy-financed agreements; and so on.'

Mr Dell also referred to the possible role which the fund might play in non-buffer stocking operations. Under the UNCTAD proposals it was envisaged that part of the fund could be lent cheaply, through what has now become known as a 'second window' to developing countries unable to benefit from commodity trade reforms. Mr Dell said that the developed group of countries was prepared to consider this role. He continued: 'Our starting point is that any financial facility or "second window" in the fund for other measures should try to avoid duplication of existing international arrangements which, through the World Bank and elsewhere, are already active in the field. Bearing in mind this existing activity', he went on, 'it is clear that any "second window" would have to be limited in scale; and that its scope, as regards both the measures to be supported and their links with producers and consumers in international commodity arrangements, would have to be precisely defined. Equally it would . . . have to be financed through voluntary contribution from donor countries.' Mr Dell said that he believed that the thinking of most countries on other measures was still at an early stage. He considered it a priority task over the next few months to elaborate ideas in this area.

Referring to 'the basis for the management and control of the fund' as a key point which as yet remained unresolved in the negotiations, Mr Dell told the conference that control of the fund would clearly be 'a key political element in any negotiated settlement', adding that all participants in the fund – consuming and producing countries alike – would need to be assured that their interests in its operation would be adequately safeguarded.

The Communiqué

The conference considered that the time had come when the international community should move away from the polarised 'source' and 'pool' ideas (see below), working instead towards establishing a Common Fund designed to make fullest use of all available funds. It recognised the greater willingness that now existed to consider favourably proposals both for direct government contributions to the fund's capital, and also deposits by international commodity arrangements and borrowing as possible sources of finance. Ministers felt that the fund should be so structured as to ensure the most efficient operation of the Common Fund while recognising the special problems of developing countries.

The conference agreed that measures other than buffer stocking played an essential part in the implementation of the Integrated Programme for Commodities. Accepting the possibility of a financial role for the Common Fund in this area as an element in a wider international consensus on the objectives and structure of the fund, ministers agreed that any such role would need to be precisely

[1]Group B countries consist of the Western European and non-European industrialised member countries of the United Nations.

defined, taking account of existing international activity in support of other measures, and should appropriately reflect the collective interests of commodity producers and consumers.

The conference agreed that the negotiations on the Common Fund should take account of the interests and problems of developing importing countries, particularly the least developed among them.

The conference agreed that the organisation, management and voting structure of the fund would have to be determined in the light of decisions on its scope and financial structure, taking into account the character of the fund as an institution intended to contribute to the attainment of the objectives of a new international economic order.

Background

General agreement was reached at UNCTAD IV in 1976 on the establishment of a fund to stabilise commodity prices around longer-term market trends (see p 286, 1976). The Common Fund formed a major item of discussion when Commonwealth heads of Government met in London in June 1977, and they agreed to work towards its early establishment.

Developed and developing nations at the Conference on International Economic Co-operation (the North-South talks) in Paris in 1977 agreed on the need to establish a Common Fund (see pp 228-9, 1977), but at the United Nations' negotiating conference which took place in Geneva from March to April 1977, and reconvened later in November of the same year, the participants failed to resolve differences on a number of issues. These include the nature of the fund – that is, whether it should be the primary source of finance for commodity buffer stocks, or should pool the resources of individual commodity agreements; and the use of the fund to finance measures other than buffer stocks. At the request of the developing nations the conference was suspended on 1 December 1977.

The Commonwealth has a strong interest in commodity trade since member countries account for a substantial proportion of world exports of important commodities such as tea, cocoa, rubber, jute, hard fibres, sugar, vegetable oils and oilseeds, tin, bauxite and copper.

Major Investment Programmes

Major investment programmes in the chemicals and motor industries in Britain are described below.

CHEMICALS INDUSTRY

The British chemicals industry plans to spend some £6,100 million on investment for expansion over the next three years (to 1980), according to the results of a survey of the investment intentions of member companies of the Chemical Industries Association. Some 90 companies, responsible for more than 75 per cent of investment in chemicals in Britain in 1977, took part in the survey.

Of the £6,100 million, £3,900 million is accounted for by forecast capital expenditure, and the remainder by additional working capital. Planned investment in plant and equipment in Britain in 1978 is estimated at £1,070 million, an increase of 14 per cent in volume and 31 per cent in value over 1977; the 1977 level itself represented a rise of 12 per cent in volume and 29 per cent in value over 1976.

The chemicals industry accounts for about 10 per cent of total manufacturing output in Britain, amounting to some £13,000 million in 1977, of which about one-third is exported.

Imperial Chemical Industries

Imperial Chemical Industries (ICI) approved an investment programme in 1977 amounting to £804 million, of which more than half was spent in Britain, according to the company's annual report for 1977. Investment currently in progress will result in the expansion of output of existing products and the introduction of new ones, such as high-concentration protein for animal feed, the outcome of ICI's own research and development work and one of the most promising areas for expansion.

MOTOR INDUSTRY

British Leyland

In a statement in the House of Commons on 3 April (*Hansard*, cols 3-4), the Secretary of State for Industry, Mr Eric Varley, said that the Government had concluded that it was right to give British Leyland (BL)[1] the backing recommended by the National Enterprise Board (NEB) in its report (published on the same day) on the company's corporate plan (see pp 60-2). (The report outlines the strategy contained in the plan and recommends the Government to give it full support and to provide the funding necessary to enable the new BL board to carry through its proposals.) Mr Varley said that the Government accepted in principle that £850 million of public funds would be needed over the period 1978-81, and envisaged that, if BL progressed on the lines set out in the plan, the necessary funds would be provided.

Speaking in London later on the same day, Mr Varley said that the Government and the NEB had decided to back the plan for the next four years. 'The new management have the right to expect our full support in their efforts to put BL on a sound footing and I am encouraged by the recent evidence of improvement in the market share and output of BL Cars.'

In a debate in the House of Commons on 10 April (*Hansard*, cols 998-1126) on an Order to increase the NEB's financial limit under the Industry Act 1975 (so as to provide £300 million of the £450 million of new equity capital needed in 1978 to provide for BL's cash needs, as well as to meet the capital requirements of other companies for which the NEB was responsible and to enable it to undertake its wider statutory purposes, see pp 387-8, 1974), Mr

[1]On 5 May it was announced that the name of the company was likely to be changed to BL Ltd in the near future.

Varley said that the Government's objective of BL becoming a viable manufacturer, independent of public funds in the 1980s, remained unchanged. BL still provided over half the total number of cars produced for export in the whole of the United Kingdom (the proportion in terms of value being even higher), and the Government and the NEB had come to the conclusion that the annual funding decisions would be determined by overall assessment of performance (based on a report each November, beginning in 1978) against the plan's targets and the company's prospects.

Ford Motor Company

The Ford Motor Company plans to invest over £1,000 million in Britain on new and existing plants over the next four years, according to its annual report for 1977. After consistently averaging £50 million a year throughout the 1970s, capital expenditure will now be raised to an average of £265 million a year. Part of this will be spent at the new engine plant in South Wales (see p 390, 1977); there will also be large-scale expenditure on existing plants, especially at Dagenham (Essex) and Halewood (Merseyside).

Aerospace Industry Orders

Several major new export orders for Britain's aerospace industry were announced in April.

Rolls-Royce

The United States airline, Pan American World Airways (Pan Am), has announced that it will buy 12 long-range versions of the Lockheed TriStar aircraft powered by 36 Rolls-Royce RB-211 engines which, together with eight spare engines and other spare parts, will be worth more than £115 million. Pan Am has also taken options on a further 14 similar aircraft, which, if taken up, will bring the total value of the order to more than £250 million.

British Aerospace

European Airbus

The United States airline, Eastern Airlines, has announced its decision to buy from Airbus Industrie (a European consortium) 23 A300 jet airliners, for which British Aerospace (BAe) builds the wings and has an overall design consultancy role. Eastern Airlines has also taken options on a further 34 such aircraft. BAe estimates that its share of the order will be worth £25 million, or over £60 million if the further options are taken up.

Satellite Communication Systems

A consortium of companies from seven European countries, led by British Aerospace, is to build two new satellite communication systems under contracts worth a total of £75 million placed by the European Space Agency (see pp 84 and 411, 1973). Under the contract, the consortium will provide four satellites – two for general communications within Europe and two for a new maritime system, which will operate from above the Indian Ocean and the Atlantic Ocean. The system – the aim of which is to improve the quality of long-range ship-to-shore transmissions, reduce waiting time and improve safety and distress services – is to be known as MAROTS B, a development of earlier OTS (orbital test satellite) and MAROTS (a maritime communications satellite, the payload of which is mounted on an OTS service module) space communication projects.

Nationalised Industries

New guidelines governing the control of the operations of the nationalised industries in Britain, their financial and economic objectives, and their relations with the Government, have been set out in a White Paper, published on 5 April.[1] They are described as 'proposals designed to reconcile the purposes of public ownership with the independence needed for vigorous and enterprising management; and to ensure that the nationalised industries employ resources efficiently to the benefit of the whole community'. Among the measures suggested are new powers for the Government to issue specific directions to nationalised industry boards, alterations in the composition of some boards to include civil servants and representatives of employees and consumers, and the reintroduction of financial targets for those industries which do not already have them.

WHITE PAPER

The White Paper contains the Government's reply to the recommendations of the National Economic Development Office (NEDO) based on its study of the nationalised industries, published in 1976 (see pp 29-31, 1977). It says that the NEDO presented a 'perceptive and thoughtful analysis of the problems' and that, while the Government does not accept all the report's proposals, it welcomes the report 'as offering a basis on which both the Government and the industries can now build'. The White Paper takes into account the Government's plans for developing industrial democracy, and explains its main proposals in response to the report on consumers and the nationalised industries, issued by the National Consumer Council (NCC) in 1976 (for publication details, see p 370, 1976).

Background

The White Paper notes that nationalised industries are major users of national resources, employing about 1·7 million people, 7 per cent of the total labour force. In 1976 they were responsible for

[1] *The Nationalised Industries.* Cmnd 7131. HMSO, 75p. ISBN 0 10 171310 X.

10 per cent of the output of the British economy and 14 per cent of total fixed investment. They occupy a dominant position in energy, public transport, communications and steel. They vary widely in size, objectives, competitive position, markets, financial strength and social significance. Accordingly, while there are a number of important principles which are widely applicable, measures have to take account of the industries' varying circumstances.

The previous general review of the nationalised industries' economic and financial principles was a White Paper in 1967 (see pp 1201-4, 1967). This explained the Government's policy at that time, which was to treat the nationalised industries as commercial bodies with regard to the expected return on investment; it set out criteria for investment and pricing policy, and stressed the importance of clear financial targets. However, the new White Paper explains, this approach did not last and in the first half of the 1970s, relations between the Government and the nationalised industries deteriorated. This arose partly because of disagreements and uncertainty over the plans of some industries, especially in connection with the price restraint policy, which resulted in financial deficits for many of the industries and the abandonment of most of the financial targets which had been set. In 1974 the Government set out to restore the nationalised industries to a sound economic and financial footing. As a result, they are now much stronger financially than for a number of years, and 'a more stable, and better, climate of relationship has been established'.

Structure and Operation of Nationalised Industry Boards

The Government rejects the NEDO proposal that, in general, each nationalised industry should be run by a Policy Council responsible for strategy and a Corporation Board acting as the executive authority. In consultation with the industries, the Government found that none of them favoured these arrangements, which it believes would slow down the process of decision-making and confuse responsibility and accountability. However, the Government agrees with the NEDO report that, in dealing with nationalised industries, its main concern should be with strategic and major issues rather than with day-to-day management.

Ministerial Directions to Boards

The statutes which govern the running of the nationalised industries empower the appropriate Secretary of State to give the boards general directions on matters which appear to him to affect the national interest. In some cases he is also empowered to issue specific directions on certain subjects, but in the general absence of powers to give specific directions, governments have had to rely on a process of informal persuasion, which has occasionally caused friction and resentment. The Government believes that this should be avoided and agrees with the NEDO report that the present powers should be extended so that a minister would be able to give a board general or specific directions on matters affecting the national interest. Accordingly, the Government will put forward proposals for amending the statutes. Among the safeguards to be incorporated in these proposals are that a minister would not be able to issue a specific direction until after consulting the industry concerned; the direction would be in the form of a Statutory Instrument, subject to parliamentary procedures; and the minister would be required to publish an estimate of any extra cost as a result of implementing the direction, with compensation being paid where appropriate. Specific directions would be used sparingly. Ministers would not be drawn into detailed intervention or parliamentary discussion of matters of day-to-day management, 'which should in principle, and must in practice, be left to those responsible for managing and running these industries without the intervention of ministers or Parliament'.

Board Membership

The White Paper says that the composition of each board will continue to be settled by the ministers concerned after discussion with the board's chairman. The Government has decided that in some industries a civil servant from the sponsoring department and, in a few cases, one from the Treasury, will be appointed to the boards. The purpose is to give departments a clearer understanding of the industries and their problems. Civil servants already sit on the boards of the British National Oil Corporation and the United Kingdom Atomic Energy Authority, and their presence has proved useful for both the Government and the corporations.

Management and trade unions in the nationalised industries are making progress in developing arrangements for consultation with and participation by employees, for example, in the Post Office (see p 353, 1977). The Government welcomes these initiatives and intends to encourage the introduction of schemes of industrial democracy at all levels in the industries. It has asked the nationalised industry chairmen to discuss such schemes with the trade unions where they are not already doing so, and to put forward by August 1978 joint proposals for further improvements in consultation and participation.

Wide-ranging discussions have been held by the Government on the NCC's recommendations, some of which have already been implemented. Consumer members will be appointed to some boards. The Government sees an important continuing role for the nationalised industry consumer councils, working in close association with the NCC and with local authority and other advisory services.

Corporate Planning

The White Paper says that the industries' corporate plans and examinations of strategic options should have a central place in their relationships with sponsoring departments. The process of corporate planning, covering various time periods, involves continuing discussions on long-term strategy, medium-term development plans, and annual operating plans and budgets. As corporate planning is established more widely, 'it will enable the annual review of the industries' medium-term investment programmes to take place in the context of known

and understood longer-term strategies'. The NEDO report pointed out that several nationalised industries' investment plans had suffered from Government intervention through short-term reductions in public expenditure or through intervention in previously agreed strategic plans. The White Paper says that 'the dialogue between the Government and industries in the corporate planning process should help to provide a more stable framework'.

Finance

The Government believes that 'it is essential that the mistakes of the early 1970s should not be repeated' and intends that nationalised industries should not be forced into deficit by price restraint. When help has to be given to poorer members of the community it will be given primarily through the social security and taxation systems and not by subsidising nationalised industry prices. Although profitability has improved, real rates of return are generally well below those in the private sector and an adequate level of nationalised industry profits is considered to be essential for the industries, their customers and the economy as a whole. Profits provide some of the funds for the large investment programmes and keep down the industries' borrowing requirements, 'thus helping to reduce the burden of taxation and enabling the Government to maintain other important public expenditure priorities'. The Government intends to reintroduce and to reinforce the approach to investment appraisal, pricing policy and financial targets, which was set out in the 1967 White Paper.

Investment Appraisal

The White Paper says that capital and other resources invested in the nationalised industries should produce a return to the nation comparable with that which would have been achieved if invested elsewhere in the economy. In planning its investment, each industry should take account of the opportunity cost of capital, that is, the cost to the nation of the resources it uses in connection with its investment programme as a whole, rather than just on some individual projects as at present. The Government is, therefore, discussing with the industries the development of a more direct way of relating the opportunity cost of capital to their financial performance. Opportunity cost of capital will be represented by a new concept, the required rate of return which nationalised industries will be expected to achieve on new investment as a whole. The Government expects the industries to obtain a return of 5 per cent in real terms before tax, a figure that will be reviewed from time to time, normally every three to five years. Investment appraisal of individual projects will remain important and nationalised industries will still be required to consult their sponsoring departments on certain major investment projects such as power stations and steelworks.

Pricing Policy

The Government believes that each nationalised industry should be primarily responsible for working out pricing details with regard to its markets and objectives. It notes that 'it is not sufficient for the industries to set the general level of their prices to cover their total costs'. Prices should be structured sensibly and arbitrary cross-subsidisation between different groups of consumers should be avoided.

Financial Targets

The Government considers that financial targets (currently in operation for British Airways, the British Transport Docks Board and the Post Office's postal, telecommunications and Giro services) are central to the Government's guidelines to nationalised industries and are essential for short- to medium-term planning. It intends to complete as soon as possible the process of setting and publishing new financial targets for the other nationalised industries. Targets would, for profitable industries, usually be in the form of a percentage return on average net assets employed and would generally be set for about three to five years. When an industry's target was agreed, it would be announced in Parliament and the appropriate Secretary of State would indicate the main assumptions on which it was based and any social and sectoral objectives which the Government had set for the industry.

Performance Indicators

The Government agrees with the NEDO that the industries' efficiency cannot be measured solely in terms of meeting their financial targets. Accordingly, it has asked each industry, in consultation with its sponsoring department, to select a number of key performance indicators, including international comparisons, which should be published prominently in its annual report as soon as possible. Indicators will vary, but some will probably be common to most industries, for example, labour productivity and standards of service.

Monitoring

The NEDO considered that nationalised industry boards were not effectively required to account for their performance in a systematic or objective manner. The Government agrees that it is essential for these industries to account effectively to Parliament and the public, and has, therefore, asked them to include in annual reports a statement summarising the Government's main instructions and guidance, and how the industries are measuring up to their objectives. Information given in the statements would normally include the main points in the corporate plan and any Government response, financial targets and performance indicators. The White Paper says that publication of this information will be an important development in response to the NEDO report and will be helpful to the Select Committee on Nationalised Industries and to Parliament in examining and monitoring the industries' performance.

Capital Structure

The Government rejects the criticism by the NEDO that the methods of financing nationalised industries are not based on consistent criteria and does not accept that the majority of nationalised industries need risk capital. It reaffirms that public dividend capital (PDC), capital on which dividends are paid to the Government, will be made available only to those nationalised industries expected to be fully

viable and which are also especially subject to cyclical fluctuations in their returns. It does not intend to take new statutory powers to make PDC available to bodies other than the five which are already eligible: British Aerospace, British Airways, British Shipbuilders, the British Steel Corporation and the Post Office's Giro service. Those industries not eligible for PDC will continue to be financed from internal resources, by borrowing and, in some cases, by Government grants. Greater flexibility in the arrangements for borrowing from the National Loans Fund will be adopted and this should be helpful to the industries.

Co-operative Development Agency Bill

A Bill to establish a Co-operative Development Agency (CDA), to keep a general watch over the whole range of co-operative activities, to provide support and to co-ordinate a co-operative viewpoint, was given an unopposed second reading in the House of Commons on 6 April.

Background

Introducing the Bill (*Hansard*, cols 748-808) the Under-Secretary of State for Industry, Mr Bob Cryer, said that the need had been felt for over a decade for a new agency within the co-operative movement, to encourage and promote the development of successful co-operatives[1] of various kinds. He began by giving some of the background to 'this short but very important Bill, which is highly relevant to our national situation'.

The co-operative movement had a long and proud history based on solid achievement. The range of co-operative activities was very large and the overall picture was of successful enterprise. There were more than 200 retail consumer societies in membership of the Co-operative Union, with a combined membership of some 10·5 million, whose annual turnover represented over 7 per cent of the total national retail trade. Two relatively small organisations representing co-operation in the industrial field were the Co-operative Productive Federation, the trade association for traditional producer co-operatives, and the more recently formed Industrial Common Ownership Movement, in which about 400 co-operatives were involved, the work of which was supported by the Government by means of grants under the Industrial Common Ownership Act 1976 (see p 9, 1977). In agriculture, the Central Council for Agricultural and Horticultural Co-operation was set up in 1967 as a statutory body to encourage and promote co-operation in production and marketing in this sector and to act as agents of the Government in administering a grant scheme; while over 400 agricultural co-operative societies in Britain belonged to the Federation of Agricultural Co-operatives (United Kingdom) Ltd. Other central organisations represented the interests of co-operation in the fishing industry, housing and credit unions.

Mr Cryer said that although there were already a number of representative organisations in the various co-operative sectors, the need for a new agency had been eloquently expressed within the Co-operative Party[1] and discussed at successive co-operative congresses. All this had led to a call for the Government to establish a CDA, and to the setting up of a working group to develop this idea further (see p 174, 1977).

Details of the Bill

The Bill seeks to implement the majority recommendations[2] embodied in the report of the working group set up in March 1977 to develop the idea of a CDA (see pp 174 and 447, 1977). This report recommended, among other things, that the power to make appointments to the agency should be vested in the Secretary of State for Industry, who should be required to consult and seek nominations from all types of co-operative organisations, thus ensuring as far as possible that the governing board of the agency represented the whole range of the movement's interests. This power is provided under the first clause of the Bill, which also declares that the agency is not to be regarded as a Crown servant or agent or as enjoying Crown status, privilege or immunity; nor should it be exempt from taxes or similar charges.

The agency's functions, specified in the second clause, are designed to further the interests of the co-operative movement generally. It would be expected to work with existing co-operative organisations – which shared a common faith in general co-operative principles but which had widely separate interests – and to co-ordinate and facilitate the development of co-operative activities.

The agency would have power to take the initiative in proposing co-operative projects where studies and research showed that there was a worthwhile opportunity, although it would not have power (as specified in the third clause) to carry on any commercial activity. Its essential role would be advisory and promotional; and it would be able to give guidance to individuals, co-operatives and co-operative representative organisations of many kinds. It would appraise and evaluate projects with the aim of encouraging successful co-operatives.

The fourth clause authorises the Secretary of State for Industry to make grants to the agency up to a maximum total of £900,000, the estimated cost of establishing and running it for three years. After this formative period, during which the agency should develop its own sense of corporate purpose, its finances would be expected to derive essentially from voluntary contributions from the co-operative movement and from income generated by fees

[1]In a co-operative or common ownership enterprise the earned surplus, or savings, is applied to the collective benefit of the members creating the wealth of the enterprise, or democratically distributed to them in the form of dividend.

[1]Linked to the Labour Party by an agreement under which it is enabled to put forward 30 candidates at a general election, sponsored and endorsed by the co-operative movement.

[2]Although there was broad agreement among the members of the working group, the crucial point of difference between the majority and minority points of view (published side by side in the report, see p 447, 1977) concerned the method of appointing the members of the agency.

charged for its services. Under the sixth clause the agency would be required to report annually to Parliament.

Members of the agency would be disqualified from membership of the House of Commons and of the Northern Ireland Assembly (if and when reconstituted, see p 247, 1974).

Opposition Views

The chief spokesman for the Opposition, Mr Kenneth Clarke, said that the Opposition gave a cautious welcome to the Bill, although this caution did not especially extend to the proposed agency, so long as the appointments to it were reasonably balanced. The Conservative Party was favourably disposed towards worker co-operatives or worker-owned enterprises so long as they operated in the market on the same terms as their competitors. Co-operatives could mean genuine workers' ownership, a direct interest in the job for the worker and a reduction of conflict between the interests of the worker and the enterprise.

Mr Jo Grimond, spokesman for the Liberal Party, recommended support for the Bill, but expressed the hope that the agency would be entirely self-financing after its first three years.

Offshore Oil and Gas

Britain's offshore oil production increased rapidly in 1977 and was equivalent to nearly half the nation's oil needs, resulting in a significant improvement in the balance of payments, according to the annual review of the development of Britain's oil and gas resources, published on 18 April.[1] Major new investment programmes were started to develop a second generation of offshore oilfields, and plans to develop several more fields in the near future are under consideration by the oil companies. In a statement on 5 April, the Secretary of State for Energy, Mr Anthony Wedgwood Benn, announced that the British National Oil Corporation (BNOC) and the British Gas Corporation had been awarded a total of ten offshore production licences, and that the Government had decided to go ahead with a sixth round of offshore licensing.

ANNUAL REVIEW 1977–78

Oil Production and Reserves

Britain's oil production rose from some 12 million tonnes in 1976 to 37·8 million tonnes in 1977, comprising 37·3 million tonnes from the eight offshore oilfields onstream in that year (*see Table 1*), about 100,000 tonnes from the onshore fields and some 400,000 tonnes of gas condensate from the Frigg field and the gasfields in the southern North Sea. By the end of 1977, offshore production was running at over 850,000 barrels a day[1], equivalent to nearly 42 million tonnes a year. The year's production was slightly below the level forecast in the previous review owing to delays resulting from bad weather and technical problems. Development work began on three new fields – Murchison, Buchan and Tartan – and several other fields, including Beatrice, Magnus, Hutton, Hutton North West, Cormorant North and Fulmar, were at a stage where development could begin in the near future; decisions on a number of new fields are expected in 1978. Production this year is forecast to be between 55 million and 65 million tonnes, slightly lower than earlier estimates, after taking account of the possibility that the problems which limited the build-up of production in the second half of 1977 may persist in 1978. Estimates for later years have not been reduced and the forecast is that Britain should achieve net self-sufficiency in oil by 1980 when production is predicted to be between 90 million and 110 million tonnes; production should rise to between 100 million and 150 million tonnes a year during the 1980s.

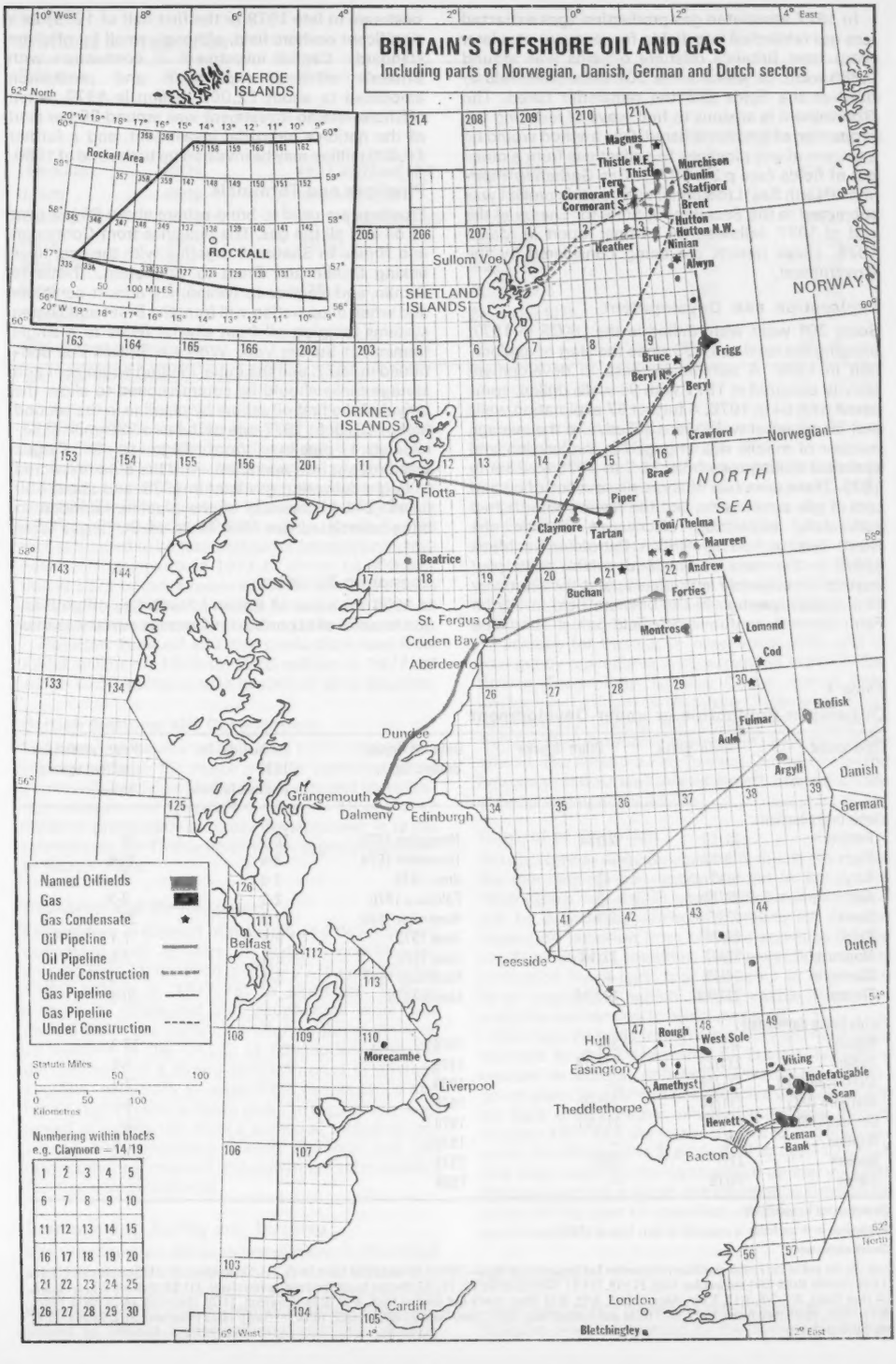
Total estimated oil reserves in the United Kingdom Continental Shelf (UKCS) are between 3,000 million and 4,500 million tonnes. The possible total of reserves for fields in production or under development is increased by the review from the 1977 estimate of 1,260 million tonnes to 1,430 million tonnes, reflecting the reclassification of three fields as under development rather than as under appraisal. Proven and probable reserves from fields in the UKCS are estimated at 2,030 million tonnes. However, if all the possible reserves from the fields so far discovered in the UKCS were produced, which the review says is 'an optimistic assumption', the total could be 2,620 million tonnes. In addition, the estimate for expected discoveries in blocks licensed so far is given as 600 million tonnes, resulting in a figure of 3,220 million tonnes for estimated possible reserves from the areas of the UKCS currently licensed.

Gas Production and Reserves

Some 40,160 million cubic metres (mcm) of natural gas, obtained from seven fields in the UKCS (*see Table 2*), were purchased by the British Gas Corporation in 1977, about 1,760 mcm more than in 1976. In September 1977 the first gas from the Northern Basin of the North Sea, from the Frigg field, was brought ashore by pipeline to the new terminal at St Fergus (Grampian). Indigenous natural gas contributed 93 per cent of Britain's primary gas demand in 1977, slightly lower than in 1976, and the proportion is expected to continue to fall as increasing supplies are received from the Frigg field, some 60 per cent of which is in the Norwegian sector of the North Sea. Reserves under contract to the British Gas Corporation will support average daily production of over 160 mcm by the early 1980s, and further contracts and discoveries are likely to enable production to be maintained at or above this level until the mid-1990s. Remaining proven gas reserves are estimated at 744,000 mcm and total known reserves at 1,546,000 mcm.

[1]*Development of the Oil and Gas Resources of the United Kingdom 1978*. Department of Energy. HMSO, £2·25. ISBN 0 11 410645 2.

[1]Average daily crude oil production in the first quarter of 1978 was: January, 884,823 barrels; February, 947,961 barrels; and March, 874,307 barrels. 1 barrel=0·135 tonne.



1	2	3	4	5
6	7	8	9	10
11	12	13	14	15
16	17	18	19	20
21	22	23	24	25
26	27	28	29	30

In 1977 associated gas production (gas extracted less gas reinjected into fields for recovery at a later date) from Britain's offshore oilfields was around 3,880 mcm, of which some 507 mcm were sold or used at the fields and the remainder flared. The Government is anxious to find ways of reducing the proportion of gas that is flared. One method would be a system of gas pipelines to collect gas from a number of fields (see p 34, 1977). Gas Gathering Pipelines (North Sea) Ltd's initial work on this project was submitted to the Secretary of State for Energy at the end of 1977, followed by its final report in March 1978. These reports are being considered by the Government.

Exploration and Development

Some 201 wells were drilled in the UKCS in 1977, bringing the total to 1,136 since the start of exploration in 1964. A notable increase in development activity occurred in 1977 with 96 wells drilled, compared with 54 in 1976. A further 67 exploration wells and 38 appraisal wells were drilled, and the average number of mobile rigs engaged in exploration and appraisal drilling rose from 21·2 in 1976 to 23·6 in 1977. There were five offshore discoveries of oil and two of gas condensate, and the review records two particularly interesting discoveries outside the North Sea: a find by British Petroleum in block 206/8 to the west of Shetland, which stimulated interest considerably in that area; and the discovery of a deeper reservoir in the onshore field at Wytch Farm (Dorset), confirming the field (which should be onstream in late 1978 or the first half of 1979) as a significant onshore field, although small by offshore standards. Capital investment in connection with Britain's offshore exploration and production amounted to about £2,000 million in 1977, when offshore-related investment was around 25 per cent of the nation's industrial investment, and a further £6,000 million may be invested up to the end of 1980.

Pipelines and Terminals

Pipelines are used to bring ashore about 80 per cent of oil and all the gas. The pipelines from Cormorant and Ninian to Shetland, together with the spur lines linking Dunlin and Brent to Cormorant, Thistle to Dunlin, and Heather to Ninian, are almost complete and when in operation will form the Brent and Ninian systems bringing oil from several fields to a single terminal at Sullom Voe. Work on Sullom Voe continued in 1977, and the initial loading equipment and storage tanks should be commissioned to allow the arrival of the first oil ashore by pipeline in the second half of 1978. In 1977 one of the two 220-mile (354-kilometre) pipelines from Frigg to St Fergus was brought into operation, with the other expected to begin delivering gas later in 1978, and about 150 miles (241 kilometres) of the pipeline intended to bring associated gas from Brent to St Fergus were laid.

Economic Benefits

In 1977 the value of Britain's North Sea oil production in terms of exports and of imports saved was over

Table 1

Oilfields in Production or under Development

Field name	Main block	Other blocks	Date of initial production	Production in 1977 (million tonnes)	Peak production* (million tonnes a year)
Fields in production:					
Forties	21/10	22/6a	November 1975	20·1	24
Piper	15/17	—	December 1976	8·6	14·6
Beryl	9/13	—‡	June 1976	3·0	4
Auk	30/16	—‡	February 1976	2·3	2·3
Brent	211/29	3/4	November 1976	1·3	23
Argyll	30/24	—	June 1975	0·8	1·1
Montrose	22/17	22/18	June 1976	0·8	2·4
Claymore	14/19	—	November 1977	0·3	7·3
Thistle	211/18	211/19	March 1978	—	10·6
Fields being developed:					
Ninian	3/3	3/8	1978†	—	17·3
Dunlin	211/23	211/24	1979	—	7·5
Murchison (UK)	211/19	—	1980	—	7·2
Statfjord (UK)	211/24	211/25	1979	—	4·2
Cormorant South	211/26	211/21	1979	—	3
Heather	2/5	—	1978†	—	2·5
Buchan	21/1	20/5	1979	—	‡
Tartan	15/16	—	1980	—	‡

*As estimated by operators.

†Production in these fields is expected to start later in 1978.

‡Under assessment.

Note: By the end of 1977 other significant discoveries had been made in blocks 206/8, 210/15, 210/25 (Tern field), 211/12 (Magnus), 211/13 (two finds), 211/16, 211/18 (Thistle North East and another find), 211/19, 211/21 (Cormorant North), 211/27 (Hutton North West and another find), 211/28 (Hutton), 2/5, 2/10, 3/2, 3/4 (two finds), 3/7, 3/9, 3/11, 3/14a (Alwyn), 3/15, 9/12, 9/13 (Beryl North and another find), 9/19, 9/28 (Crawford), 11/30 (Beatrice), 14/20 (three finds), 15/13, 15/21, 15/23 (two finds), 15/27, 16/7 (Brae and another find), 16/17 (Toni/Thelma), 16/21, 16/22, 16/28 (Andrew), 16/29 (Maureen), 21/2, 23/26a, 23/27 and 30/16 (Fulmar).

Table 2

Gasfields in Production

Field name	Main block	Other blocks	Date of inittal production	Production in 1977	Cumulative production to end of 1977
				(thousand million cubic metres)	
Leman Bank	49/26	49/27, 49/28 and 53/2	August 1968	15·58	112·32
Hewett	48/29	48/30 and 52/5a	July 1969	7·85	47·41
Indefatigable	49/18	49/19, 49/23 and 49/24	October 1971	6·78	34·16
Viking	49/17	49/12a	July 1972	6·33	27·64
West Sole	48/6	—	March 1967	1·95	17·70
Rough	47/8	47/3a	October 1975	1·06	1·58
Frigg (UK)	10/1	—	September 1977	0·61	0·61
Total offshore gas production				40·16	241·42

Note: Other gas discoveries are shown on the map on p 177.

£2,000 million and, for the first time, exceeded expenditure on imported goods and services necessary for the exploration and production programmes. Indigenous natural gas production was equivalent to some 34·3 million tonnes of oil, which would also be worth in the order of £2,000 million. North Sea oil was estimated to be responsible for strengthening the balance of payments in 1977 by about £2,000 million at 1976 prices. Exports of crude oil in 1977 were 15·6 million tonnes, of which 60 per cent went to other member countries of the European Community.

Royalties from oil and gas production rose from £44·2 million in 1976 to £228 million in 1977, of which £200 million was in respect of oil production.

British National Oil Corporation

Further progress was made during 1977 on negotiating agreements for majority state participation in commercial oilfields. Through its equity and participation interests, the BNOC is involved in 13 of the 17 fields in production or under development. It is the operator for the Thistle field which began production in March 1978.

Research and Development

Expenditure in support of research and development connected with offshore oil and gas activities increased from £9·6 million in 1976-77 to an estimated £14·5 million in 1977-78. In particular, a large amount of geological and geophysical work was carried out in the continuing effort to assess the level of reserves in the UKCS. In connection with the development of a strong British interest in offshore supplies, especially in inspection, maintenance and repair, high priority is being given to supporting work aimed at easing the diver's workload including improved non-destructive testing methods and the development of manned and unmanned submersibles for inspecting platforms.

Employment, Safety and Training

The workforce on offshore installations in the UKCS was estimated at 12,100 in 1977, about 30 per cent more than in 1976. Improved levels of safety were recorded in 1977 and the review says that this is believed to reflect better training and the growing experience of working in the hostile North Sea environment. In addition to the 16 known deaths, there were 40 serious offshore accidents and 68 dangerous occurrences in 1977, compared with 57 and 71 respectively in the previous year. On 1 September 1977 the Health and Safety Commission assumed policy responsibility for occupational health and safety offshore, while the Department of Energy retained responsibility for the structural integrity of offshore installations and submarine pipelines, and for the safe production of oil.

Facilities for training in operational skills and in emergency procedures were expanded in 1977. The Drilling Technology Training Centre moved from Livingston (Lothian) to Montrose (Tayside) and was renamed the Drilling and Production Technology Training Centre, reflecting the wider range of courses offered. The Offshore Fire Training Centre, run by the Petroleum Industries Training Board, opened on the same site in January 1978.

Control of Pollution

Britain, Norway, Sweden and the Netherlands signed the international convention agreed in London in 1976 (see p 198, 1977) under which compensation will be payable by offshore operators for damage caused by pollution from offshore activities off the coasts of ratifying countries. The convention requires ratification by at least four countries to come into force. Legislation which would enable Britain to ratify the convention is being prepared.

Fourteen oil spills from offshore installations were reported to the Department of Energy, but none resulted in coastal pollution. Government contingency plans for offshore emergencies were revised in the light of an offshore emergency exercise held in January 1977 and the lessons learnt from the blow-out in the Norwegian Ekofisk field in April 1977. A new blow-out plan has been drawn up and includes arrangements for a blow-out emergency team to be set up in the port of operation of the oil company concerned.

LICENSING

Three new policy decisions on offshore oil and gas licensing were announced by the Secretary of State

for Energy in the House of Commons on 5 April (*Hansard*, col 439).

1 Mr Benn said that the Government had decided to award production licences for nine blocks in the North Sea and the South Western Approaches to the BNOC and for one block in the Irish Sea to the British Gas Corporation. This would increase the national stake in the total area licensed, allow effective depletion policies for any reserves found in the new blocks, and also help to ensure a continuing programme of work for the corporations' operating teams.

2 The BNOC or, in suitable cases, the British Gas Corporation would be given the first opportunity of negotiating to acquire any interest in licences issued under the first four rounds that an existing holder wished to dispose of to another body. This policy would help to raise the British public sector share in earlier licences from its current level of about one-eighth of the area covered.

3 The Government had decided in favour of a sixth round of offshore petroleum production licensing of some 40 blocks open to applications from private sector companies. Mr Benn said that the oil companies would thus be able to continue making an important contribution to Britain's offshore exploration and development programme. He would soon be publishing a consultative document containing detailed proposals for the terms and conditions of the sixth round.

Windscale

Approval of the project for a new thermal oxide reprocessing plant (THORP) at Windscale (Cumbria) was indicated by the House of Commons following a debate on 22 March. On 3 April the Secretary of State for the Environment laid before Parliament a Special Development Order[1] granting planning permission for the plant at Windscale.

DEBATE IN THE HOUSE OF COMMONS

The debate (*Hansard*, 22.3.78, cols 1537-674) on the Windscale project centred in particular on the report by the inspector who conducted the public inquiry, Mr Justice Parker (see pp 98-100). In a vote at the end of the debate, MPs signified their approval of the Windscale scheme by 186 votes to 56.

Opening Speech for the Government

The Secretary of State for the Environment, Mr Peter Shore, opened on behalf of the Government (cols 1537-55). He said that he doubted whether any other country in the Western world had had a more open and thorough examination of a major nuclear proposal than Britain had had on Windscale. The major issues involved were the contribution of nuclear power to energy supply over the next 25 years and beyond; the best and safest way of disposing of wastes and emissions created by nuclear energy; how to secure nuclear installations and nuclear fuels against attack without unacceptable damage to civil liberties; and how the legitimate demand of countries without nuclear weapons for a secure supply of nuclear materials for power generation could be met with the least danger of misuse or diversion as source material for nuclear weapons. A key question was how the peaceful development of nuclear power could be promoted without harm to present and future generations and without opening up the threat of a wider spread of nuclear weapons. The problem had become more pressing; he understood that over 200 reactors were under construction and a further 150 planned in about 27 countries, more than double the number built up to 1973. Substantial development of nuclear power in both the main industrialised countries and in the newly industrialising nations was unavoidable. Although Britain's reliance on nuclear power was likely to be less than some other highly industrialised countries, mainly because of large indigenous reserves of coal, oil and natural gas, it was clear that Britain needed to use nuclear energy so as to maintain its industrial base and an acceptable standard of living.

Two possible ways of managing nuclear waste were identified by Mr Shore: the storage of spent fuel for eventual disposal, either in its complete form or after treatment; and the reprocessing of spent fuel and vitrification of highly active waste, pending ultimate disposal. Mr Shore said that the latter way seemed more promising because reprocessing reduced the amount of highly active waste that had to be disposed of. In addition, the argument that plutonium and uranium contained in the spent fuel were too valuable to be wasted, as would occur without reprocessing, was an important factor. He found the inspector's view that highly active waste in the form of vitrified glass was likely to be safer for long-term disposal to be 'convincing'. Mr Shore said that his conclusion was, therefore, that, for environmental reasons, reprocessing and vitrification should be adopted as the route for long-term disposal.

Dealing with the possible threat from terrorism, Mr Shore said that the Government had recognised this hazard for a long time. Considerable experience had been accumulated in maintaining the security of existing stocks of plutonium derived from the reprocessing of Magnox fuel. Strict security precautions were taken at the Windscale site and for the transit of plutonium to and from Windscale, and these had been greatly strengthened in recent years. The arrangements were based on international guidelines recommended by the International Atomic Energy Agency (IAEA), the main international body in the nuclear field. Measures were kept under review and 'inspected periodically by the Government's security advisers with a view to maintaining the highest standards'. Mr Shore pointed out that it was the threat of terrorism, not the peaceful use of nuclear power, which posed a danger to democratic society. He shared Mr Justice Parker's view that the building of a reprocessing plant would not 'itself

[1] *The Town and Country Planning (Windscale and Calder Works) Special Development Order 1978*. SI 1978/523. HMSO, 15p. ISBN 011 083523 9.

involve any significant new interference with civil liberties'.

Mr Shore said that the Government had decided in March 1976 that British Nuclear Fuels Limited (BNFL) should be allowed to take on further contracts from overseas customers for the reprocessing of irradiated fuels, subject to provisos that contracts included an option to return residual radioactive waste to the country of origin and that suitable understandings in support of this option should be reached by the British Government and the Government of the country concerned. Overseas business, including a likely contract for reprocessing on behalf of Japanese utilities, prospective European contracts, and a further contract to transport fuel from Japan to Windscale and to the French plant at Cap de La Hague, offered considerable financial and economic advantages. However, it would mean the return of the plutonium separated in the course of reprocessing, and this raised wider issues, such as in connection with the Non-Proliferation Treaty (see pp 223-4, 1977). Mr Justice Parker had concluded that the reprocessing of fuel from states without nuclear weapons. 'far from conflicting with our policy of non-proliferation, would in fact reinforce it' (see p 99), and the Government believed that Britain was enhancing non-proliferation objectives by undertaking the reprocessing of fuel from countries without nuclear weapons.

Summarising his reasons for supporting the views expressed in Mr Justice Parker's report, Mr Shore said that the report had shown that reprocessing could be carried out without any significant increase in radiological risk; that reprocessing was a better option than the alternative of storing spent fuel for disposal in a form that contained plutonium and unused uranium; that the security risks could be contained in ways compatible with the British democratic way of life; and that the reprocessing of overseas fuel did not run counter to the Government's policy of preventing the proliferation of nuclear weapons. Subject to the views expressed in the debate, he proposed to lay before Parliament a Special Development Order to permit the development at Windscale for which planning permission had been sought.

Other Views

The views of the Conservative Party were expressed by its front-bench spokesmen on energy, Mr Tom King (cols 1555-65), and the environment, Mr Michael Heseltine (cols 1653-60). Mr King said that the Conservatives believed that Mr Justice Parker had produced a valuable report and supported his recommendations. Mr King found that the arguments for reprocessing set out in the report were 'persuasive' and he noted that the safety record of the nuclear industry was 'remarkably good'. On non-proliferation, he shared Mr Shore's view that the inspector's arguments on this subject were persuasive. If Britain were to say that there would be no reprocessing, it would be a positive incitement to other countries to start reprocessing. It seemed 'infinitely preferable that reprocessing should be concentrated in the existing [nuclear] weapon states with proper controls on return of fuel'. Mr Heseltine said that the balance of risk was 'very much in favour of moving in the Windscale direction rather than in storing the existing wastes on an ever escalating scale'. He believed that it was right to proceed with the Windscale project now rather than to delay until the results of International Nuclear Fuel Cycle Evaluation (INFCE)[1] were known, as had been suggested, as this would enable any problems to be handled on 'a much more relaxed basis' than if a decision were postponed. If it were found later that reprocessing would be required, the level of accumulated waste to be dealt with would be larger and the THORP plant would be needed faster.

Presenting the Liberal Party's views, Mr David Penhaligon said (cols 1597-604) that Liberal MPs would be voting to indicate their dissatisfaction at the development going ahead at the present time. They did not understand why a decision could not wait until after the work connected with INFCE had been completed and its report and findings considered. Mr Penhaligon raised some doubts about the suitability of the vitrification process and the final disposal of the vitrified waste, noting the difficulties of finding acceptable sites for permanent burial of the waste. He said that in the establishment of this type of plant there would 'undoubtedly be a major erosion of civil liberties for a large number of people'.

Among back-bench Labour MPs who spoke in the debate were Mr Arthur Palmer (cols 1575-81), chairman of the Select Committee on Science and Technology, and Mr Leo Abse (cols 1565-72). In Mr Palmer's view, reprocessing was little different from many other dangerous activities carried on in factories in advanced industrial countries. BNFL had the technical expertise to ensure that the level of radioactivity was fully controlled. He noted that the trade unions in the electricity supply industry were in favour of the Windscale development. He considered that there were many reasons for supporting the Windscale project, including Britain's moral obligation to take on reprocessing work from overseas as a contribution to non-proliferation. Mr Abse said that he thought MPs were being hustled into a decision by the nuclear power industry and that Britain would be entering an export business which would have 'appallingly malignant side effects'. He regretted that Britain had not co-operated with President Carter's initiative of deferring commercial reprocessing and believed that, if the decision to proceed with Windscale were taken without waiting for the results of INFCE, this would destroy Britain's credibility as a nation genuinely concerned to make the attempt to arrest nuclear proliferation.

Closing Speech for the Government

Winding up for the Government (cols 1660-74), the Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, concentrated on the non-proliferation aspects of the Windscale project. He noted that the Governments taking part in INFCE had agreed that it would not be used as an excuse for delay in reaching necessary decisions on

[1]INFCE involves a scientific and technical evaluation of the nuclear fuel cycle by those countries which operate a part of the cycle or which will be doing so shortly, and a number of international organisations including the IAEA. INFCE was agreed at the Downing Street Summit in May 1977 (see p 226, 1977) and a conference was held in Washington in October 1977 attended by 40 countries and several international organisations.

nuclear policy. It was true that the United States Administration had told the Government that it would prefer Britain to defer decisions on reprocessing pending the results of INFCE, but construction of the THORP plant would start only in late 1981-82 (although work on storage ponds would need to start immediately). This timing would allow Britain to take full account in the design, protection and management of the plant of the results of INFCE. The Government fully shared President Carter's objective of limiting as far as possible the danger of nuclear proliferation. Successive British Governments had 'a proud record in championing the issue of non-proliferation'. Where Britain and the United States differed was that Britain believed that the best way of limiting the spread of reprocessing plants – already located in 12 countries and planned in at least three more – was by offering states without nuclear weapons the services of the new reprocessing plant at Windscale as this would remove the incentive for such countries to build their own reprocessing plants. Britain had a responsibility to further the aim of the Non-Proliferation Treaty. As a member of the Nuclear Suppliers Group (NSG, see pp 47-8) it had accepted an obligation to 'exercise restraint in the transfer of sensitive facilities, technology and weapons usable materials'. Dr Owen said that Britain would certainly apply this restraint to the sale of reprocessing plants or technology. Britain had never made such a sale and did not intend to do so.

In discussing the storage and management of plutonium, Dr Owen said that continuing efforts were being made in the IAEA, the NSG and through INFCE to improve and strengthen the international safeguards on the storage and transport of plutonium. Britain already accepted European safeguards on all its civil nuclear installations and the Government had made a voluntary offer to place all such installations, including Windscale, under IAEA safeguards and inspection. The Government had been working in the NSG, the IAEA and through INFCE to reach agreement on a system of international plutonium management. Such a system would mean that plutonium produced in reprocessing plants would be stored under international control and returned to its owner only when a genuine requirement had been demonstrated. Even then, plutonium would be returned only under IAEA safeguards and in a form that would reduce the risk of theft and misuse by terrorists. International plutonium management probably offered the best prospects of ending or reducing the risk of proliferation. Although it would be some time before details were agreed, this should be long before the THORP plant at Windscale started reprocessing fuel for overseas customers.

Dr Owen said that it would also be some years before a decision was necessary on the form in which plutonium would be returned; the British and Japanese Governments had already agreed that this matter had to be resolved before any plutonium was delivered to Japan, and similar arrangements would apply to any other customer. Consideration was constantly being given as to how plutonium could be shipped most safely. It might be transported in the form of mixed plutonium/uranium oxide or as a fabricated fuel element, possibly combined with a source of radiation that would discourage unauthorised opening of its container. Other possibilities would also be examined very seriously.

Dr Owen said that the physical protection of nuclear material against terrorism was a major matter of concern. Negotiations were taking place for the preparation of an international convention, but Dr Owen noted that it was 'a difficult subject for international agreement'.

SPECIAL DEVELOPMENT ORDER

The Special Development Order granting planning permission for the construction of the reprocessing plant at Windscale was laid before Parliament on 3 April and will come into force on 15 May. The Order contains a number of planning conditions to be attached to the permission, along the lines recommended in Mr Justice Parker's report.

Roads

A more selective approach to roadbuilding, increased flexibility in applying design standards, a comprehensive framework for the appraisal of road schemes by the Department of Transport, greater openness at the various stages of planning, and a new procedure for appointing inspectors to conduct trunk road and motorway inquiries are the main features of the Government's new policy on the planning and construction of trunk roads and motorways, which is set out in two White Papers published on 4 April.[1]

Policy for Roads in England

The White Paper dealing with the Government's policy for trunk road and motorway construction in England, the first of an annual series which replaces the annual review *Roads in England*, says that, as envisaged in the White Paper on transport policy (see p 275, 1977), a more selective approach will be adopted in place of the concept of a predetermined strategic network. Within the planned investment of some £300 million a year at 1977 prices for the construction of trunk roads and motorways in England, priority will go to vital industrial routes, routes to ports, and to dealing with those trunk roads where the problems of congestion and environmental damage are most severe. As the more selective approach comes into effect, the road programme will contain fewer major inter-urban construction projects and more schemes designed to solve specific and local problems on the trunk road network.

Many of the recommendations of the Leitch Committee,[2] including its suggestions for more flexible design standards and a comprehensive

[1] *Policy for Roads: England 1978*. Cmnd 7132. HMSO, £1·60. ISBN 0 10 171320 7. *Report on the Review of Highway Inquiry Procedures*. Cmnd 7133. HMSO, 35p. ISBN 0 10 171330 4.

[2] A committee under the chairmanship of Sir George Leitch which analysed the methods of assessing trunk road development. Publication details of its report are given on p 76.

framework for assessing road proposals, are being implemented by the Department of Transport. It has already begun to use the comprehensive framework technique, which sets out the economic, social and environmental advantages and disadvantages of schemes as they concern various groups of people, and will be developing it so as to improve the decision-taking process. In addition, the framework will help to provide the public with the range of factors relevant to the appraisal of road schemes so that discussion can be better informed. The White Paper says that much work will be nseded to put into full effect all the changes to be made in the methods of appraisal and in forecasting. The Secretary of State for Transport has accepted the Leitch Committee's recommendation that there should be a Standing Advisory Committee 'to provide an informed and independent source of advice on these and other changes and to keep a watch on progress'.

All the schemes in the road programme, amounting to more than 400, are being reviewed by the Department of Transport. The first stage, which has virtually been completed, has involved a reappraisal of the need for and standards of schemes. The more selective approach means that improvement schemes on a smaller scale than originally envisaged will be adequate in many cases. Some 34 schemes, costing a total of about £90 million, have been dropped from the preparation pool and replaced in most cases by by-passes and minor improvement schemes, with a total cost of some £20 million. Standards for a number of routes have also been altered. The second stage, which is still in progress, involves reassessing the timing of schemes with a view to bringing forward those which are needed urgently and are not at present given sufficient priority.

Highway Inquiry Procedures in England and Wales

A review of the adequacy of highway inquiry procedures[1] was conducted by the Department of Transport and the Department of the Environment in conjunction with the Council on Tribunals (which exercises general supervision over tribunals). The White Paper on highway inquiry procedures says that the review was confined to experiences of inquiries in England, but the conclusions also apply to Wales. Serious difficulties have occurred at a few major inquiries in England in the last two years, but the Government believes that its planned action 'should do much to remove the grounds for public unease which have been expressed about the conduct of trunk road inquiries'.

Inspectors who conduct highway inquiries are appointed by the appropriate Secretaries of State (in England those for the Environment and for Transport), and the White Paper says that this has given rise to criticism that they might be inclined to favour the Department of Transport's proposals. To meet this criticism and to remove any doubts about their impartiality, the Secretaries of State will in future ask the Lord Chancellor to nominate a person considered by him to be suitable for a particular inquiry. Other measures planned include greater opportunities for parliamentary involvement in the examination of transport policies and the road programme, notably through the regular presentation to Parliament of the annual series of White Papers on roads (see above); more scope for highway inquiries to examine the regional or local need for the road concerned; the publication of more and better information for objectors and members of the public; closer association between the public consultation and inquiry procedures; pre-inquiry procedural meetings; and the examination of routes other than the one preferred by the Department of Transport.

[1]The current planning procedure for trunk road and motorway schemes is described briefly in COI Fact Sheet on Britain, *Motorways and Trunk Roads*, FSB/E5.

Shorter Notes

WAVE ENERGY

Britain's participation in a new international programme of research and development to advance ways of generating electricity from the energy of sea waves was announced in the House of Commons on 13 April by Mr Alexander Eadie, Parliamentary Under-Secretary of State in the Department of Energy. Mr Eadie said that an agreement on a collaborative research and development programme was being signed in Tokyo that day by four member countries of the International Energy Agency: Britain, the United States, Canada and Japan. In this programme, tests of air-driven turbines and generators on board a buoy 80 metres long, being specially built for the Japan Marine Science and Technology Centre, would be held in the Sea of Japan during the next two winters. Britain's contribution to the total cost of some £1·5 million was expected to be about £300,000, part of which would be spent in British industry. Information and experience from the trial would be of considerable value to Britain's national programme on wave power development (see p 230, 1976 and p 206, 1977).

On 19 April Mr Eadie saw the first sea trials of the 'Cockerell Raft', one of four wave power machines being developed under the national programme with financial support from the Department of Energy. Mr Eadie said afterwards that wave power probably offered a greater potential for Britain than any other natural renewab e energy source, provided that the considerable technical and engineering problems involved in extracting the power for use as electricity could be overcome. Experts now thought that there was a good chance of solving these problems.

SOCIAL AND CULTURAL AFFAIRS

Social Security

Increased rates of retirement pension and other social security benefits take effect from November 1978, a year after the last increase. Long-term benefits, such as retirement pension and widows' benefits, are being increased by 11·5 per cent and short-term benefits, such as sickness benefit, by 7 per cent. Prices are expected to have risen by 7 per cent between November 1977 and November 1978.

The new weekly rates were announced to the House of Commons on 12 April and are subject to parliamentary approval. Details are set out below. An account of the social security system is contained in COI reference pamphlet, R5455/77.

Contributory Benefits

The payment of the following weekly benefits depends upon contributions paid under the national insurance scheme. The allowances quoted for children exclude the non-contributory child benefit (see below) which should be added to give a complete picture of support for children.

	November 1977 £	1978 £
Retirement pension[1]:		
Single person	17·50	19·50
Wife or other adult dependant	10·50	11·70
Widow's allowance (first 26 weeks of widowhood)	24·50	27·30
Each child	6·10	6·35
Widowed mother's allowance	17·50	19·50
Each child	6·10	6·35
Widow's pension	17·50	19·50
Each child	6·10	6·35
Sickness benefit:		
Single person	14·70	15·75
Wife or other adult depandant	9·10	9·75
Each child	2·20	1·85
Invalidity pension:		
Single person	17·50	19·50
Wife or other adult depandant	10·50	11·70
Each child	6·10	6·35
Invalidity allowance payable with invalidity pension when incapacity began before age:		
35	3·70	4·15
45	2·30	2·60
60 for men or 55 for women	1·15	1·30
Unemployment benefit:		
Single person	14·70	15·75
Wife or other adult dependant	9·10	9·75
Each child	2·20	1·85
Maternity allowance	14·70	15·75

[1]Another part of the package includes a rise in the amount a pensioner can earn before his pension is reduced; this 'earnings limit' is being increased from £40 to £45 a week.

Non-Contributory Benefits

The most important non-contributory benefit is the tax-free child benefit payable to the mother. Others assist disabled people, and include the mobility allowance designed to help very severely disabled people with transport costs, the attendance allowance for severely disabled people requiring from another person frequent attention or continual supervision, the invalidity pension for those not qualifying for a contributory pension, and the invalid care allowance for people who give up work to care for a severely disabled relative receiving an attendance allowance.

	November 1977 £	1978 £
Child benefit for two-parent families:		
Each child	2·30*	3·00
Child benefit for single-parent families:		
First child	3·30*	5·00
Each other child	2·30*	3·00
Guardian's allowance	6·10	6·35
Attendance allowance:		
Higher rate	14·00	15·60
Lower rate	9·30	10·40
Invalidity pension:		
Single person	10·50	11·70
Wife or other adult dependant	6·30	7·05
Each child	6·10	6·35

*Figures relate to April 1978.

	November 1977 £	November 1978 £
Invalid care allowance:		
Single person	10·50	11·70
Wife or other adult dependant	6·30	7·05
Each child	6·10	6·35
Mobility allowance	7·00	10·00 (from July 1978)
Retirement pension for people over 80:		
Man, single woman, or widow	10·50	11·70
Married woman	6·30	7·05

Industrial Injuries Benefits

Industrial injuries benefits are payable to employed people who suffer personal injuries arising from an accident at work or from a prescribed industrial disease contracted there. Injury benefit is payable for up to 26 weeks and may be followed by disablement benefit.

	November 1977 £	November 1978 £
Injury benefit:		
Single person	17·45	18·50
Adult dependant	9·10	9·75
Each child	2·20	1·85
Disablement benefit (100 per cent assessment)	28·60	31·90
Unemployability supplement	17·50	19·50
Adult dependant	10·50	11·70
Each child	6·10	6·35
Special hardship allowance (maximum)	11·44	12·76
Constant attendance allowance (normal maximum)	11·40	12·70
Exceptionally severe disablement allowance	11·40	12·70
Industrial death benefit:		
Widow's pension (first 26 weeks of widowhood)	24·50	27·30
Widow's pension (higher rate)	18·05	20·05
Widow's pension (lower rate)	5·25	5·85

Supplementary Benefits

Supplementary benefits are payable to people who are not in work and whose financial resources are below a certain level. The amounts shown below are the weekly levels laid down for the requirements of married couples, single householders and others. Benefit awarded is the difference between resources and these requirements. The long-term rates apply to retirement pensioners and to those people below pensionable age who have received supplementary benefit continuously for two years, provided that the award has not been subject to the condition of registering for employment. There is a 25p addition for people aged over 80.

	November 1977 £	November 1978 £
Ordinary Rate		
Husband and wife	23·55	25·25
Person living alone	14·50	15·55
Any other person aged:		
18 and over	11·60	12·45
16-17 years	8·90	9·55
13-15 years	7·40	7·95
11-12 years	6·10	6·55
5-10 years	4·95	5·30
Under 5 years	4·10	4·40
Long-term rate		
Husband and wife	1·35	31·55
Person living alone	17·90	19·90
Any other person aged:		
18 and over	14·35	15·95

The long-term rates for people under 18 are the same as the short-term rates.

Rates for Blind People

Ordinary rate		
Husband and wife:		
If one is blind	24·80	26·50
if both are blind	25·60	27·30
Any other blind person aged:		
18 and over	15·75	16·80
16-17 years	9·80	10·45
13-15 years	7·40	7·95
11-12 years	6·10	6·55
5-10 years	4·95	5·30
Under 5 years	4·10	4·40
Long-term Rate		
Husband and wife:		
If one is blind	29·60	32·80
If both are blind	30·40	33·60
Any other person aged:		
18 and over	19·15	21·15

The long-term rates for blind people under 18 are the same as the short-term rates for blind people.

The amount of benefit arrived at by deducting resources from requirements may be increased where there are exceptional expenses – for example, for extra heating or a special diet. These discretionary additions are:

	November 1977 £	November 1978 £
Heating	0·80	0·85
	1·60	1·70
	2·40	2·55
Diet	0·90	0·95
	2·10	2·25

There is also a rent allowance for non-householders. The present weekly allowance of £1·45 will remain unchanged in November 1978.

Main War Pension Rates

War pensions are payable to people disabled as a result of service in the Armed Forces, to people disabled from injuries received in the Merchant Navy or Civil Defence during wartime, or to civilians injured by enemy action.

	November 1977 £	1978 £
Disablement Benefits		
Disablement pension for private at 100 per cent rate	28·60	31·90
Unemployability allowances:[1]		
Personal allowance	18·60	20·75
Wife or other adult dependant	10·50	11·70
Comforts allowance:		
Higher rate	4·90	5·40
Lower rate	2·45	2·70
Allowance for lower standard of occupation (maximum)	11·44	12·76
Constant attendance allowance:		
Normal maximum	11·40	12·70
Special maximum	22·80	25·40
Age allowance with assessments of:		
40 and 50 per cent	2·00	2·20
Over 50 and not exceeding 70 per cent	3·10	3·40
Over 70 and not exceeding 90 per cent	4·40	4·80
Over 90 per cent	6·20	6·80
Exceptionally severe disablement allowance	11·40	12·70
Severe disablement occupational allowance	5·70	6·35
Clothing allowance (per year):		
Higher rate	40·00	43·00
Lower rate	25·00	27·00
Death Benefits		
Widow's pension (private's widow)	22·70	25·30
Childless widow under 40	5·25	5·85
Rent allowance	8·60	9·60
Age allowance for elderly widows:		
Between age 65 and 70	2·20	2·40
Over age 70	4·40	4·80
Adult orphans	17·50	19·50

Race Relations: West Indian Community

In a White Paper[2] published on 26 April the Government says that action to ensure that general social policies and programmes take account of the special difficulties of the West Indian and other minority communities is necessary if the 'problems of disadvantage confronting the ethnic minorities are to be successfully overcome'. In the light of the recommendations contained in the report on the West Indian community published in 1977 by the Select Committee on Race Relations and Immigration the White Paper discusses such matters as education, urban deprivation, child care and the personal social services, housing, employment and relations with the police. It describes what measures have already been taken and indicates what further action is planned.

[1]Invalidity allowance (see p 184) is also payable.

[2]*The West Indian Community. Observations on the Report of the Select Committee on Race Relations and Immigration.* Cmnd 7186. HMSO, 60p. ISBN 0 10 171860 8.

The West Indian Community

In its response to the report of the Select Committee on Race Relations and Immigration (see p 175, 1977) the Government says that it is determined to press ahead with its search for practical ways in which efforts to remedy disadvantage can be made more effective. All the public authorities and services concerned and people in every walk of life will have to give this their full attention if racial inequalities, which are morally unacceptable and socially divisive, are to be prevented from hardening into entrenched patterns. It considers that the committee's report is an important contribution to the development of policies towards the central problem of disadvantage.

Education

The White Paper says that it is the Government's policy that every effort should be made to enable children and adults from all sections of society to achieve their potential. The concept and practice of identifying and assisting pupils with special needs has long been a feature of the educational system, and immigration to Britain over the past twenty years or so has brought about a change in the nature and range of special educational needs. In areas of minority group settlement, local education authorities, schools and teachers are involved in responding to the specific needs of pupils of different ethnic origins. Apart from arrangements made for non-English speaking children to learn English the curriculum should reflect the wide range of cultures, histories and life-styles in Britain. The necessary changes in attitude and curriculum are taking place and support is required by teachers through nationally and locally provided in-service training so that they may play their part in bringing about the reorientation of the educational system to serve a multiracial society.

Following wide consultation, the Government has accepted the Select Committee's recommendation that there should be a special inquiry into several educational issues. The inquiry will give priority to identifying any weaknesses in the educational system affecting the achievement of pupils of West Indian origin and an interim report will be submitted on the remedial action which could be taken. The inquiry will also look at the special difficulties of other minorities and at the preparation of all children for life in a multiracial society. There will be further consultations about the type of inquiry, the terms of reference and other questions affecting the setting up of the inquiry.

The Select Committee recommended the collection and monitoring of statistics about West Indians in several sectors of education, including students training to be teachers and teachers in service. The

Government accepts that a start should be made on the collection of educational statistics on an ethnic basis (not only about West Indians) and detailed arrangements for this will be worked out in consultation with those concerned. The Government hopes that the first returns of such information will be made in January 1980. The question of performance monitoring will be further considered by the special inquiry.

Discussions have begun with the Advisory Council on the Supply and Training of Teachers and others on the best means of encouraging more members of the ethnic minorities to enter the teaching profession.

Urban Deprivation and Self-help

The White Paper notes that the Select Committee pointed out that young blacks share many problems with the younger generation as a whole, especially in deprived areas. It says that they will benefit from the Government's new inner city policy (see p 283, 1977) which proposes priority for inner areas as well as from a major increase in the level of Urban Programme funds and an extension of the scope of projects financed under the programme. The Government agrees with the committee in recognising the importance of self-help schemes in overcoming problems of urban deprivation and says that these schemes will continue to be eligible for assistance under the Urban Programme. It says also that the self-help scheme administered by the former Community Relations Commission made an encouraging start and now that responsibility for the scheme has been assumed by the new Commission for Racial Equality its operation and effectiveness are to be reviewed.

Child Care and Personal Social Services

The Government accepts the committee's views on the value of training and employing West Indians and members of other ethnic minorities in the social services and recognises the need to ensure that social services staff generally have the training to appreciate the special problems of minority groups. The Government is already discussing with the Central Council for Education and Training in Social Work the question of increasing the numbers of social workers from the ethnic minorities.

The White Paper refers to advice given to local authorities by the Department of Health and Social Security on day-care facilities and on the need to provide regular support to child-minders. It also mentions a guide published by the appropriate Government departments on foster care which includes a chapter on caring for children from different cultures; a short film made on fostering black children; and grants made to two adoption agencies concerned with finding adoptive and foster homes for children from the ethnic minorities.

Housing

Although the committee made no recommendations about housing, the White Paper reaffirms the Government's commitment to improve the housing of those who live in deprived areas. Housing programmes will continue to be directed towards giving priority to areas of housing stress and the special problems facing ethnic minorities will continue to be taken into account. The Government notes the committee's comments on keeping records and statistics to help housing authorities to determine the impact of their policies on the ethnic minorities. A consultation paper has been issued which reiterates the Government's view that sensible and confidential records should be kept in appropriate areas and consideration is now being given to the comments received.

Employment

The Government's observations on several specific issues to which the committee drew attention are contained in the White Paper. It says that it fully recognises the importance of West Indians – as well as people from other minority groups – being able to apply for jobs and, when in employment, being treated on exactly the same footing as the rest of the community. It is confident that the strengthened powers of the Race Relations Act will make a major contribution in this respect. But the new Act needs to be supported by measures of broadly two kinds: first, wider recognition by employers and trade unions of the need for effective action to eliminate policies and procedures which operate to prevent members of ethnic minorities being employed on the same basis as others; and, secondly, action to help individuals who, for one reason or another, are ill-equipped to enter the labour market. In the case of the first objective the Government acknowledges that 'a great deal more' needs to be done. The vital part played by the Department of Employment's Race Relations Employment Advisory Service in promoting equal opportunity is acknowledged; the service is being strengthened by the addition of 12 advisers to bring the total number to 26. Help already given to individuals includes preparatory courses in literacy and numeracy and language training, and two new programmes to help unemployed people were announced in June 1977 (see p 278, 1977) after the committee reported. The first was the new Youth Opportunities Programme which brings together and expands several earlier measures, doubling by the autumn of 1978 the number of opportunities available; it is the Government's intention that, as a result of this programme, no summer or Easter school leaver who remains unemployed by the following Easter should remain without the offer of a place under the programme. The second measure is the Special Temporary Employment Programme aimed at creating temporary jobs for those aged 19 and over, with priority being given to the 19-24 age-group whose unemployment rate is well above the average. The Small Firms Employment Subsidy scheme (see p 68), under which small manufacturing firms in certain inner city areas will be eligible for financial assistance towards the expansion of employment, will also help.

Careers guidance is discussed in the White Paper and reference made to the increase from April 1978 in the number of unemployment specialist officers who are additional to the normal careers service staff maintained by local authorities. These appointments, which are concentrated in areas most affected by the rise in unemployment among young

people, are specifically to help unemployed young people, including those from ethnic minorities.

Relations between the Police and the West Indian Community

The Government agrees with the Select Committee about the need to try to improve relations between the police and sections of the West Indian community and reports that it has encouraged the links which have been established in many parts of the country at local level between the police, community relations councils and the local community, including ethnic minority groups.

At the same time the Government believes these links need to be supplemented at the national level. It does not consider that the best way of encouraging the necessary co-operation, understanding and good relations would be through the establishment of a formal working party as recommended by the committee, but it attaches considerable importance to the meetings which have already taken place between chief officers of police and the Commission for Racial Equality. It looks to these meetings to provide a regular and effective forum for discussing common problems, including relations between the police and West Indians, and for suggesting ways of bringing about improvement.

The Government continues to attach considerable importance to the recruitment of more police officers from the West Indian and other minority groups and will continue to promote measures to achieve this. Although the number of police officers from the ethnic minorities remains small in proportion to the service as a whole, the total has continued to rise, especially over the last two years.

The Media

The committee devoted a section of its report to the mass media and expressed the view that the media and those who provide information should always be mindful that race relations is a sensitive subject; it emphasised the need for constant vigilance to ensure that presentation is well balanced and to be on guard against sensationalised and misleading reporting. The Government welcomes the concern of the committee and says that, for its part, it will continue to be mindful of the need for sensitivity in dealing with race relations issues.

DOCUMENTATION

Government and Administration

Second Special Report from the Select Committee on the Parliamentary Commissioner for Administration, 1977-78. Parliamentary Commissioner for Administration – Review of Access and Jurisdiction. Announces that these matters will be reviewed by the Select Committee and reported on by the summer. HMSO, 15p. ISBN 0 10 229678 2.

Fourth Report from the Expenditure Committee, 1977-78. The Central Policy Review Staff Review of Overseas Representation. Volume I: Report (together with part of the proceedings of the committee). HMSO, £2·10. ISBN 0 10 283678 7.

External Affairs and Defence

Review Body on Armed Forces Pay, Seventh Report 1978. Cmnd 7177. HMSO, 75p. ISBN 0 10 171770 9.

Agreement between the European Economic Community and . . . Yugoslavia on Trade in Textile Products. Cmnd 7107. HMSO, 25p. ISBN 0 10 171070 4.

Berlin and East-West Relations. COI, R6035.

Economic and Scientific Affairs

The Economy. COI, FSB/D8.

Financial Statement and Budget Report 1978-79 (see p 169). HMSO, £1·40. ISBN 0 10 231078 5.

Cash Limits 1978-79. Cmnd 7161. HMSO, 35p. ISBN 0 10 171610 9.

Financial Services of the City of London. COI, FSB/F7.

Banks: Charges for Money Transmission Services. Price Commission. The report suggests two methods by which, if banks' net revenue is to be increased, money transmission charges could reflect more closely the cost of the service provided and fuller credit be given to customers from banks' income on their deposits. Either interest could be paid on current accounts or the scale of abatement of charges could be linked to broad movements in short-term interest rates as well as to average balances. House of Commons Paper 337. HMSO, £1·10. ISBN 0 10 233778 0.

Credit Controls. On 11 April the Bank of England informed Barclays Bank in respect of the *Barclaycard,* and the shareholding banks in the Joint Credit Card Company (*Access*), that the request made in December 1973, that they should require from cardholders miinmum monthly repayments (of 15 per cent or £6, whichever is the greater) has lapsed. On the same day, the Secretary of State for Prices and Consumer Protection laid an Order before Parliament to amend, with effect from 2 May, the provisions of the Hire-Purchase and Credit Sale Agreements (Control) Order 1976 (as amended), by exempting from all control those goods purchased under a credit sale agreement where the cash price of the goods under the agreement does not exceed £1,000, and payment is made by running-account credit (that is, credit where, subject to any credit limit, the debt outstanding can be varied by the customer through further drawings or through repayments or both). The effect of this amendment is to remove the monthly minimum repayment requirement on running-account credit sale agreements where the cash price does not exceed £1,000. Other credit sale agreements will remain subject to control. Treasury press notice, 11.4.78.

Directorate of Overseas Surveys. Annual Report for the year ended 31 March 1977. HMSO, £4·40. ISBN 0 11 580211 8.

Advisory, Conciliation and Arbitration Service (ACAS). Annual Report 1977. The report reflects a continued high level of activity throughout the service's third full year of operation. ACAS facilities for collective conciliation and for referring disputes to arbitration or mediation continue to be widely used. In 1977 ACAS received 3,299 requests for conciliation (3,460 in 1976), or 29 per cent more than in 1975, its first full year. Of 2,891 disputes in which it completed conciliation in 1977 (2,851 in 1976), conciliated settlements were reached or arrangements for progress towards a settlement

were agreed by the parties in 2,126 cases, or 74 per cent, a similar proportion to that in 1976. Strikes or other forms of industrial action occurred in less than a quarter of all disputes in which ACAS conciliated in 1977. Available from ACAS at Cleland House, Page Street, London SW1P 4ND.

Central Arbitration Committee (see p 213, 1975). *Annual Report 1977.* Available from the committee at 1 The Abbey Garden, Great College Street, London SW1P 3SE.

Health and Safety Commission. Report 1976-77. The commission stresses that its overriding concern is to encourage the joint participation of workers and management in efforts to eliminate risks. The report outlines the various ways in which the commission is seeking to achieve this and to involve all concerned both in the development of health and safety policy and in its implementation at the workplace. HMSO, £1·25. ISBN 0 11 883073 2.

British Industry Today: Organisation and Production. COI, R5628.

The Nationalised Industries (see pp 172-5). Cmnd 7131. HMSO, 75p. ISBN 0 10 171310 X.

International Labour Conference. Proposed Action by . . . the United Kingdom . . . on three Conventions and three Recommendations adopted at the 62nd (Maritime) Session (1976) of the International Labour Conference. Cmnd 7163. HMSO, 60p. ISBN 0 10 171630 3.

Fifth Report from the Select Committee on Nationalised Industries. Session 1977-78. Financial forecasts of the British Steel Corporation. HMSO, £2·10. ISBN 0 10 223878 2.

British Steel Corporation. The Government's Reply to Recommendations contained in the First, Second and Fifth Reports from the Select Committee on Nationalised Industries. Session 1977-78 (see p 106). Department of Industry. Cmnd 7188. HMSO, 35p. ISBN 0 10 171880 2.

Agricultural Chemicals Approval Scheme. Correction slip. Available free of charge. HMSO. ISBN 0 11 241080 4. (See p 106.)

Definitions of Terms used in Agricultural Business Management. This new edition of the booklet (formerly entitled *Terms and Definitions used in Farm and Horticultural Management*) incorporates substantial changes in content and presentation. Ministry of Agriculture, Fisheries and Food. Available, free of charge, from Economics Division I, Ministry of Agriculture, Fisheries and Food, Room 619, 3-8 Whitehall Place, London SW1A 2HH.

Farm Incomes in England and Wales, 1976-77. A report based on the Farm Management Survey. Ministry of Agriculture, Fisheries and Food. HMSO, £6. ISBN 0 11 241058 8.

Forestry. COI, FSI/6.

Development of the Oil and Gas Resources of the United Kingdom 1978 (see p 176-80) .Department of Energy. HMSO, £2·25. ISBN 0 10 410645 2.

The Town and Country Planning (Windscale and Calder Works) Special Development Order 1978 (see p 180). SI 1978/523. HMSO, 15p. ISBN 0 11 083523 9.

Reorganisation of the Electricity Supply Industry in England and Wales. A White Paper containing the Government's proposals for reorganising the electricity supply industry in England and Wales. It includes the text of a statement made by the Secretary of State for Energy on 19 July 1977 (see p 316, 1977), and the clauses of a draft bill which would reorganise the industry, notably by replacing the Electricity Council with a statutory Electricity Corporation and by establishing new subsidiary boards within the Corporation which would correspond to the Central Electricity Generating Board and to the 12 area electricity boards. Cmnd 7134, HMSO, £1·60, ISBN 0 10 171340 1.

River Water Quality: The Next Stage. Review of Discharge Consent Conditions. The National Water Council's recommendations for the establishment of environmental quality objectives for rivers in England and Wales and of discharge consent conditions in the light of these objectives. The Minister of State at the Department of the Environment, Mr Denis Howell, said in the House of Commons on 13 April that, once the new river quality objectives had been established and existing consents reviewed, Part II of the Control of Pollution Act 1974 (see p 284, 1974) could be implemented. The Government's aim was that the main provisions of Part II should be brought into full operation in England and Wales by the end of 1979. Available free from the National Water Council, 1 Queen Anne's Gate, London SW1H 9BT.

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Printed in England by Richard Madley Ltd
and Published by
HER MAJESTY'S STATIONERY OFFICE
70p net

Annual subscription including indices and postage £10·74

H469 Dd. 595155 K8 May/78 1976
ISBN 0 11 725023 6 Vol. 8 No. 5
ISSN 0039—6214